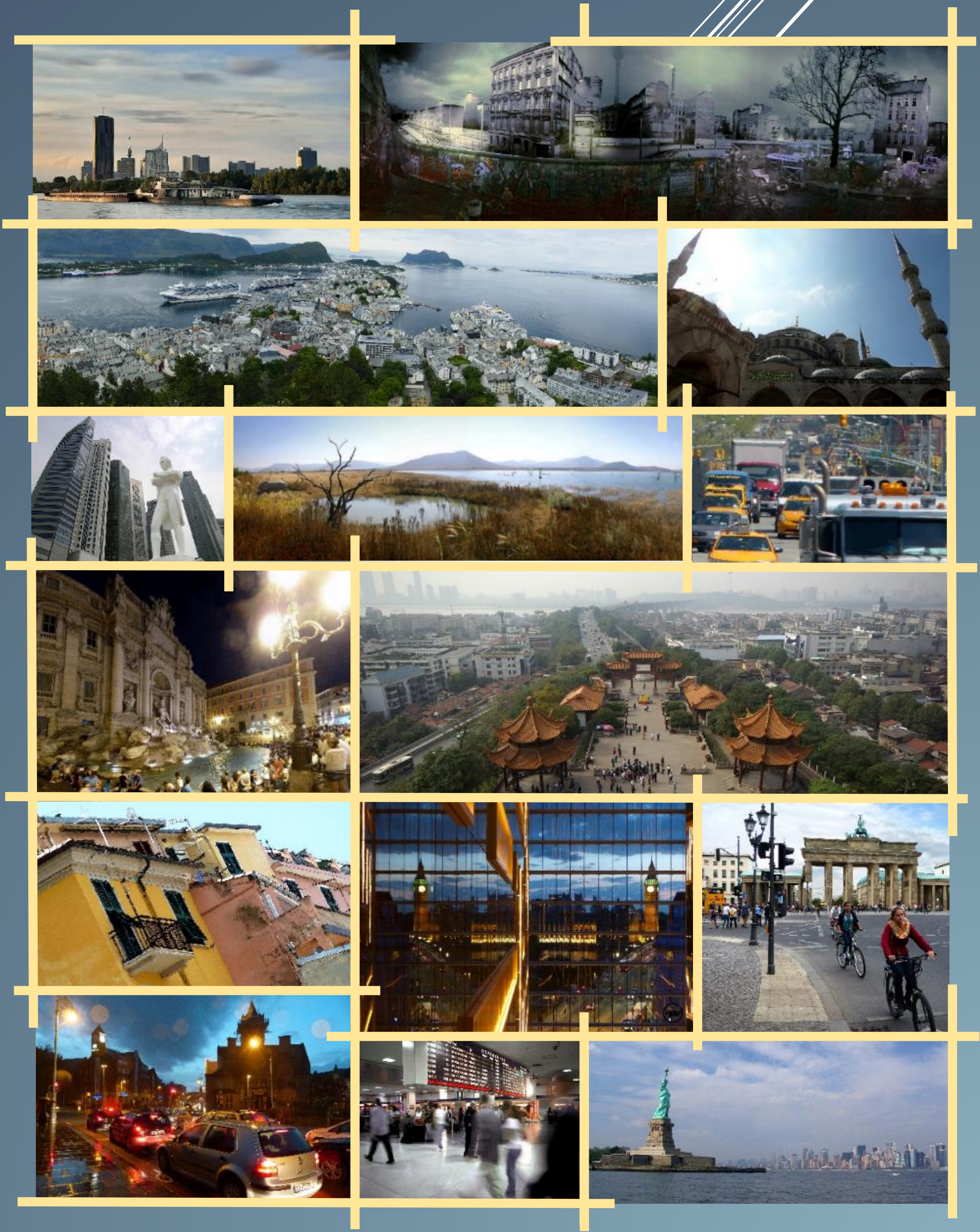
The Global Entrepreneur

H.P. de Vries



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Chapter 1: Introduction

Every person has the potential and free choice to be entrepreneurial, and this can take many forms

Although there has been a tendency to associate entrepreneurship with business start-ups and their ultimate growth and success, this is a remarkably narrow perspective. Entrepreneurship happens in large and small organisations, in both profit and not-for-profit organisations, and in business and non-business contexts. Furthermore, it occurs both locally and internationally. It can start with a simple idea or develop from the recognition of an unmet need. Anyone can be an entrepreneur; in fact, entrepreneurship is not limited to a 'certain type' of person who is destined to be entrepreneurial. Individuals can learn the rudiments of entrepreneurial behaviour and skills, and the enabling tools. As the definitions below allude to, entrepreneurship is about taking an innovative idea and turning it into reality. It is about thinking and acting differently. It could be argued that entrepreneurship is a different way of 'being'. This chapter provides an introduction to 'entrepreneurship' and insights into this phenomenon.

Entrepreneurship Unmasked – Broad Definitions

Even though the term 'entrepreneurship' has been in common use for over 300 years, there is still considerable debate regarding its meaning. There is no universal definition. Instead, definitions vary greatly in terms of who they define as an entrepreneur, how they quantify the entrepreneurial venture, and the range of entrepreneurial behaviours they include. Discussing this dilemma, Carton, Hofer and Meek (1998) reiterate Sandberg's (1992, p. 73) view: *"I don't know what entrepreneurship is, but I will recognise it when I see it."* Despite the myriad of definitional nuances, entrepreneurship research notes the importance of the act of 'creation' or more specifically, the creation of innovative products and services, organisations, wealth, and jobs. In essence, definitions of entrepreneurship emphasise the 'creation of value'. There are many text definitions which espouse this theme. These definitions also typically identify the importance of innovation, risk-taking, opportunity recognition, marshalling resources, and initiative – all aspects of the creative act. Some contemporary definitions are provided below:

> **Entrepreneurship** refers to "the process of creating value by bringing together a unique combination of resources to exploit an opportunity." (Stevenson & Jarillo-Mossi, 2011, p. 9)
>
> **Entrepreneurship** is defined as "the process by which individuals pursue opportunities without regard to resources they currently control for the purpose of exploiting future goods and services." (Barringer & Ireland, 2016, p. 28)
>
> **Entrepreneurship** refers to "the ability to create and build a vision from practically nothing: Fundamentally it is a human, creative act. It is the application of energy to initiating and building an enterprise or organisation, rather than just watching or analysing. This vision requires a willingness to take calculated risks – both personal and financial – and then to do everything possible to reduce the chances of failure. Entrepreneurship also includes the ability to build an entrepreneurial or venture team to complement your own skills and talents. It is the knack for sensing an opportunity where others see chaos,

contradiction, and confusion. It is possessing the know-how to find, marshal, and control resources (often owned by others)." (Timmons, 1999, p. 16)

"In almost all of these definitions of **entrepreneurship**, there is agreement that we are talking about a kind of behaviour that includes: (1) initiative taking, (2) the organising and reorganising of social and economic mechanisms to turn resources and situations to practical account, (3) the acceptance of risk and failure." (Hisrich, Peters, & Shepherd, 2008, p. 8)

Entrepreneurship is referred to as "a way of thinking, reasoning, and acting that is opportunity obsessed, holistic in approach and leadership balanced." (Timmons & Spinelli, 2004, p. 47)

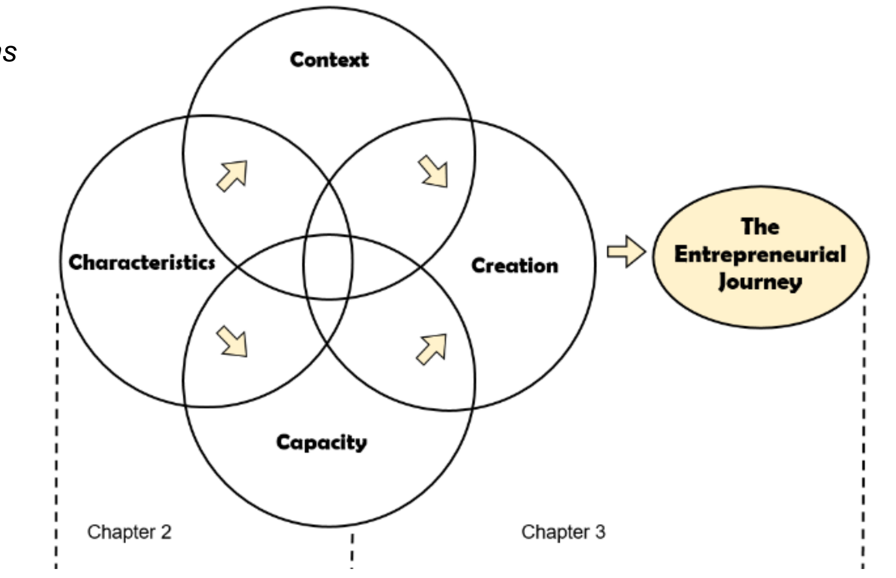
"It should be remembered that **entrepreneurship** is both a way of thinking (cognition) and a way of acting (behaviour)." (Morris, Kuratko, & Covin, 2011. p. 356).

"An **entrepreneur** is one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalise on them. Although many people come up with great business ideas, most of them never act on their ideas." (Zimmerer & Scarborough, 2008, p. 5)

What these definitions all refer to is a process of thinking and acting by which these people called entrepreneurs sense and pursue opportunities in their desire to create some form of value. Important facets of this value creation are the marshalling and controlling of scarce resources, a future orientation, calculated risk taking which includes accepting failure, and the leadership of teams.

An enriched understanding of entrepreneurship can be deduced from the perspective of different paradigms. As the previous definitions allude to, entrepreneurship can be viewed as the enactment of a process **(Creation Paradigm)**, a way of behaving and thinking **(Characteristics Paradigm)**, sensing and pursuing opportunities within the setting in which they are embedded **(Context Paradigm)**, and the marshalling scarce resources - which have financial, human and other resource implications **(Capacity Paradigm)**. Figure 1.1 depicts the intersecting nature of the paradigms which culminate in the entrepreneurial journey. We discuss each paradigm and its bearing on the entrepreneurial journey in further detail in Chapters Two and Three.

Figure 1.1
The Four Cs: Paradigms of Entrepreneurship



The Impact of the Entrepreneur

In many modes of human endeavour, entrepreneurship is considered a symbol of tenacity and achievement. The entrepreneurs, the lead actors in entrepreneurship, can contribute to economic growth, social advancement, and societal cohesion as they enact innovative ideas, create jobs and new industries, and solve global problems. Most importantly, by pushing their ideas through to reality, they demonstrate resolve and persistence.

There is a tendency to think of entrepreneurs as simply business creators and the architects of success through their venture(s). Bill Gate, Steve Jobs, Anita Roddick, Eon Musk, and Jack Ma are examples of individuals who have become internationally renowned celebrities due to their successful business ventures. In addition to the creation of a commercially successful business, a much more expansive view of entrepreneurship may consider the entrepreneurial mindset and behaviours. Using this definition, entrepreneurial success can be observed in the broader context of human activities. In fact, when the micro and/or macro environmental conditions are conducive, entrepreneurs can and do exist in social ventures, corporations, in the Arts, and the public sector.

Entrepreneurial Success

What is entrepreneurial success? At first glance, there seems to be an obvious answer to this question: one that can be framed around the widely postulated response of 'achieving one's business goals' which are often quantified in monetary terms. But, in delving more deeply into this question, we can see the complexity and variability involved with understanding what actually constitutes 'success'. There are widely contrasting views on what success is: It can be defined in specific or broad terms. Furthermore, at an individual level, what constitutes success can change over time.

What Constitutes Success?

When asked if he was motivated by money, founder of the internationally successful dive company Seaworks, **Bill Day** said: **"Certainly in the early days it did because I needed it to eat. But now, the reality is that it doesn't. It's [money]the scoreboard of the game, you know, it is part of what you do, but money of itself is a too shallow goal for this sortof stuff. What really motivates you is doing it and making it happen. It's having a dream and seeing it come into reality."**

SeaWorks head office is in Wellington, NZ
[Image: HdV]

In a similar vein, successful Canadian musician **Michael Bublé** announced in November 2016 that he was taking a break from the music industry, following what he called a **"life- changing episode"** in which his three-year-old son Noah was diagnosed with liver cancer.

No matter how success is defined, it is an important driver of human behaviour and a fundamental outcome of entrepreneurial activity.

How can we achieve success? This is a commonly asked question. There appears to be no 'magic bullet' or clear formula. After conducting 500 interviews over seven years, Richard St. John (TED, 2005) came to the conclusion that success is the result of:

- Following one's **passion** –if one does it for love, the money will follow.
- Sustained **effort** – while success requires **hard work**, it is important to have fun while doing it.
- Getting **good** at something. There is no magic to this, just practice, practice, practice.
- Staying focused by maintaining **focus** on 'one' thing.
- **Pushing** oneself – pushing oneself physically and mentally. This may involve pushing through barriers such as fear, shyness and self-doubt.
- **Serving** others – it is not about serving yourself, but serving others with something of value.
- Developing an **idea** – it is important to listen, observe, be curious, ask questions, solve problems and make connections.
- **Persisting** – persisting through failure or through what St John calls CRAP (Criticism, Rejection, Assholes and Pressure).

While Richard St. John's principles are useful guides, in the context of entrepreneurship they do not provide us with clear picture of HOW an entrepreneur moves through the myriad of opportunities and challenges they face, create some form of value, and marshal the resources needed to achieve what they may ultimately perceive as success.

The Evolution of Entrepreneurial Thought

As noted above, there is no concise or universally accepted definition of entrepreneurship. The word **entrepreneurship** originated in the French language and, literally translated, means *"between-taker"* or *"go-between"* (Hisrich & Peters, 2001, p .7). Early definitions of the term 'entrepreneur' focused on people like traders who acted as go-betweens for the money people and consumers. Hisrich and Peters (2001) offer Marco-Polo as an early example of a go-between. He was a **13th century** merchant adventurer who attempted to establish trade routes to the Far East.

During the **18th century,** a noted English economist **Richard Cantillon** introduced the term entrepreneur to the economic literature (Cuevas, 1994). He observed that traders would buy products at a certain price and sell them at an uncertain price. His definition focused on the '*risk-taking' aspect*. Further approaches saw the rise of a *'distinction between the entrepreneur and a capital provider'* (a precursor to the present-day venture capitalist). As Hisrich and Peters (2001) note, the emergence of industrialisation explains in part, the growing need to differentiate between these two terms (the entrepreneur and the capitalist). They provide the example of Thomas Edison (1847-1931) who raised capital from private sources to develop and experiment in the field of electricity and chemistry. Using this definition, he would be considered a capital user (entrepreneur), not a provider (venture capitalist).

In the early **19th century**, J B Say, a French economist, referred to an entrepreneur as a person who could move resources from an area of low to high productivity (Smith & Smith, 2000). However, this definition is considered very general, as most purposeful human endeavours could be seen in this light. During the 19th century, entrepreneurial activities were seen in a similar light to those of a manager, and were viewed primarily from an economic perspective.

In the **20th century**, Johan Heirich von Thunen and Joseph Alois Schumpeter, two economists who were associated with the German-Austrian Tradition, revisited the Cantillion view. This school of thought distinguished *businesses from the entrepreneur*. In his work, Thunen developed a theoretical model that introduced *'risk and uncertainty'* into the definition of the entrepreneur (Deakins, 1999). In the middle of the 20th century, Joseph Schumpeter (1942, p. 132) introduced the concept of *innovation* which was fundamental to his theories on entrepreneurship:

> *The function of the entrepreneur is to reform or revolutionise the pattern of production by exploiting an invention or, more generally, an untried technological method of producing a new commodity or producing an old one in new ways, opening a new source of supply of materials or a new outlet for products, by organising a new industry.*

Joseph Schumpeter
[Sketch: HdV]

Schumpeter's (1952) key argument was that only certain extraordinary people have the ability to be entrepreneurs. Schumpeter viewed the entrepreneur as an *active* figure in the productive process, distinct from the capitalist. He postulated that the entrepreneur was an 'energiser' in economic activity. Later, under the Chicago Tradition, Frank Knight presented the original von Thunen concept of uncertainty as distinct from the accompanying capitalist and managerial functions. He claimed that the entrepreneur was an individual who was prepared to undertake risks and bear uncertainty in order to obtain a reward or profit (Deakins, 1999).

Other theories have focused on the financial sphere of the entrepreneur's activities. For example, Israel Kizner (1950s) of the Modern Austrian Tradition, saw entrepreneurs as people alert to *profitable opportunities*. McCelland (1960s), associated with the Non-Economic Tradition, is known for his studies on *motivational factors* and its association with entrepreneurship (Cuevas, 1994). In more recent years, scholars have begun to examine the cultural context. Developments such as disadvantage theory (Light, 1979) and mixed-embeddedness (Kloosterman & Rath, 1999) have added to our understanding of the diversity of entrepreneurial behaviour.

Figure 1.2
The Entrepreneurial Success Conundrum

This brief overview has illustrated the continuing evolution of the entrepreneurial theory and provided us with insight into the conundrum of what entrepreneurship actually is and how it occurs. As Figure 1.2 indicates, entrepreneurship requires an individual to sense opportunities, add some form of value, and then marshal adequate and appropriate resources. Furthermore, it requires some form of successful outcome, in whatever shape that takes. Despite having some understanding of entrepreneurship, questions still remain: how does the entrepreneur move through that process and importantly, what does that process look like?

Exercise 1.1: Preconceptions about the Entrepreneur

There is folk law and preconceived views on who the entrepreneur is. Below are some traditional preconceptions about the entrepreneur.

1. Entrepreneurs are born, not made.
2. Entrepreneurs are gamblers.
3. Money is the key to entrepreneurial success.
4. You have to be young to be an entrepreneur.
5. Luck is key to entrepreneurial success.
6. Entrepreneurs are 'different': they are social and academic misfits.
7. Entrepreneurs experience high rates of failure.
8. Entrepreneurs are generally Western, middle-aged, males.
9. Entrepreneurs are doers, not thinkers.
10. Entrepreneurs are driven by material goals such as personal wealth.

Grafton Street, Dublin, Ireland
[Image: HdV]

Question: Which of the above statements are true, substantially embedded in truth, or not true? In each case, state the reasoning behind your answer.

Chapter Summary

This introduction has offered a brief but, by no means, comprehensive discussion of the evolution of entrepreneurial thought and varying perspectives about what it means to be an entrepreneur. While it does not offer any conclusive answers, the chapter, nevertheless, highlights the diversity of thought and in some cases, the single-dimensional thinking around how to define entrepreneurship. There is, sadly, no one unequivocal explanation as to what, in essence, defines the entrepreneur. There may be merit in thinking about entrepreneurship as a multi-step and multi-dimensional phenomenon. Chapters Two and Three examine each of the 4Cs to obtain a better understanding of the phenomenon of entrepreneurship.

Chapter 2: The Paradigms of Entrepreneurship – The 4Cs (Part I)

While most people can play basketball,
there is only one LeBron James

This chapter reviews some of the existing theories behind the entrepreneurial journey. It describes some common **characteristic (traits)** associated with successful entrepreneurs, the **context** in which the entrepreneurial behaviour occurs, and the financial and human **capacities** the entrepreneur must acquire. In short, this chapter provides the theoretical grounding for the later chapters where we become more acquainted with the entrepreneurial journey and the various features of entrepreneurship as seen through a global lens.

Characteristics Paradigm: Individual Traits

The word entrepreneur came into popular use in the latter half of the 20th century, a period when the world was recovering from two world wars and embracing rapid expansion and new technologies. There was a great deal of excitement and interest about people who had started and rapidly grown their business ventures. Many were revered in a way previously reserved for musicians, movie stars and sports heroes.

These entrepreneurs span all countries and continents. Names include **Sir Ka-shing Li**, a Hong Kong based entrepreneur and philanthropist, **Li Shufu** and **Jack Ma** automotive and internet entrepreneurs from China, and **Victoria Ransom** from New Zealand who formed Wildfire, a software company. Others include **George Quek** of Breadtalk, Singapore, **Sara Blakely** of Spanx, and **Ion Ţiriac**, entrepreneur and former professional tennis player from Romania, **Jorge Paulo Lemann** from 3G Capital, Brazil, **Elon Musk** of Telsa and SpaceX who was originally from South Africa, **Alfredo Delgado** who is known as 'Mr Bitcoin', **Arianna Huffington,** the founder of Huffington Post (originally from Greece, and **Richard Branson** of Virgin fame and first to make space tourism a reality on July 11, 2021.

While there are many success stories, it must also be accepted that some entrepreneurs fall from grace. Examples include **Bernie Madoff** of Bernard L. Madoff Investment Securities LLC who was sentenced to 125 years in prison for embezzlement, and **Jordan Belfort** of Stratton Oakmont whose corrupt business practices and extravagant lifestyle became the subject of a Hollywood movie (The Wolf of Wall Street).

Who is 'the Entrepreneur'?

Perhaps in response to the public's fascination with entrepreneurs and their exploits, academic researchers have attempted to define what makes these people successful and so different from other business owners. Scholars have typically argued that entrepreneurs have certain **characteristics** (or traits). Although the significance of trait theory has diminished with the advent of more expansive concepts such as process and context theories, understanding some of the entrepreneur's prominent traits enhances our understanding of how and why they act and think the way that they do.

Risk-Taking

Even those unfamiliar with entrepreneurship theory understand that there is an understanding of risk in venturing into the unknown; however, entrepreneurs are NOT perpetually giant risk-takers. In fact, entrepreneurs are more likely to be moderate and calculated risk-takers who define the risks involved with the venture and, whilst not losing sight of the entrepreneurial opportunities, attempt to minimise or manage the ensuing risks.

Calculated Risk

In discussing risk, **Richard Branson**, the UK founder of the Virgin Empire, noted the importance of **protecting the down side** (Branson, 1998) and having an **escape hatch** (Branson, 2012).

Is luck a part of entrepreneurship? Clearly, it is fortunate to be in *the right place at the right time*. Take the case of Steve Jobs: he grew up in the Californian counter-culture during the Silicon Valley boom. While this gave him the opportunity to experiment with computer technology, it also exposed him to alternative ways of thinking. Kuratko et al., (2007, p. 35) argue that “luck happens when preparation meets opportunity”. This certainly describes **entrepreneurial luck**.

Is it Just Luck?

[Image: E Veer]

Author Herb de Vries, business owner and academic, is often told by people that he was **'so lucky'** to be appointed to an academic position in 2008, when he was employed by a New Zealand university. He would often politely reply **"yes I am"**. But the transition from business owner to an academic in his late 40s had taken 12 years of continuous study, the completion of three degrees and two diplomas, and gaining teaching experience via contract lecturing. This was all completed while still running a business and raising a young family.

Achievement Oriented

Entrepreneurs often take personal responsibility for solving problems and setting and reaching specific (often far-reaching) goals. Their desire to make things happen requires business savvy and can be driven by both financial and personal ambitions. This achievement orientation has often been referred to as ***fire in the belly*** of the entrepreneur or the ***passion*** which drives the entrepreneur.

Drivers of Success

As New Zealand entrepreneur **Michael Hill**, founder of Michael Hill Jewellers once stated in a television interview: **"It's got to be fun. You've got to enjoy it. It's got to be the most exciting thing you ever do; and if it isn't, for god's sake don't do it! Change, do something you really love."**

Sara Blakely, the founder and owner of Spanx once said: **"It is important to make mistakes."** In 2019, Blakely was named one of Forbes' Power Women and Global Game Changers.

Entrepreneurs are generally not deterred by **failure**. Rather, they learn from it and keep trying until they succeed.

Making Mistakes

Arianna Huffington, the Greek founder of the Huffington Post is believed to have said, **"Failure is not the opposite of success; it's part of success."**

When **Sir Angus Tait**, founder of the successful New Zealand firm **Tait Communications** was asked by his bank manager (having, at the age of 50, mortgaged the family home to fund hisnew venture) if he was going to make the same mistakes as he had in his previous failed venture, he reportedly replied, **"No, I'm going to make entirely new ones."**

Tait Communications [Image: HdV]

Independence

Entrepreneurs crave independence and like being their own boss: this allows them to take responsibility for their own decisions and achievements. The downside of this independence is that entrepreneurs often have difficulty delegating responsibility, and are, at times, considered to be *lone wolves.* They prefer to do things their own way, may work alone on projects, and often exhibit individualistic, free spirited, and nonconformist behaviours.

Independent Mindset

When describing **Jesse James**, the founder of customer-built motorcycle manufacturer **West Coast Choppers** (California, USA), one reporter stated that **"he lives by his rules and rides the roads like he owns them."**

Elon Musk, the founder of **PayPal** and **SpaceX**, believes the word 'no' has little meaning. He exhibits single unflinching focus and has a work ethic driven by a passion for his projects. There are accounts of him working 80-plus hour weeks, including late-night shifts where he has reportedly been found sleeping under his desk.

Internal Locus of Control

The degree to which people believe that they are in charge of their lives is called the 'locus of control'. Those with a strong internal locus of control believe that success is achieved through their own efforts and abilities, or that they can exact some control over their environment, and thus their destiny. This belief system is deeply engrained in entrepreneurs.

Fearless

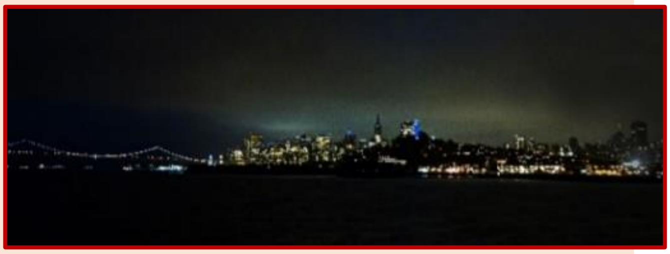
When asked if anything scared him during a 60 Minutes television interview, **Bill Day**, the New Zealand founder of international diving company **Seaworks** replied, **"No I don't think so ... I don't mean to be arrogant and that, but you're asking the question; no, I honestly don't think anything does."**

Having a strong internal locus of control has a positive impact on the entrepreneur's personal resilience (de Vries & Shields, 2006), as it enables them to weather the challenges of creating and growing a new venture. Furthermore, they have a strong belief in their own ability to make a difference in the world.

Impacting the World

Anita Roddick, UK founder of the **Body Shop** and campaigner for human rights, is reported to have said that **if you think you're too small to have an impact, try going to bed with a mosquito!**

Likewise, **Steve Jobs**, Californian co-founder of Apple, and one of the great innovators of the 20th century, reportedly once said that **we are here to put a dent in the universe, otherwise, why even be here?**



Steve Jobs was born in San Francisco in 1955
[Image: HdV]

Debadutta Upadhyaya, Indian founder of Timesaverz once said "**Life is as you would like to make of it. All of us have a choice and the easy or hard part is just a derivative of what one has chosen.**"

Embrace Change

Entrepreneurs like and embrace change. Experiencing different situations and navigating a diverse range of scenarios are all part of the ongoing experience. They constantly seek new and exciting opportunities and like challenging current orthodoxies or established markets. This practice is sometimes referred to as *disruptive thinking*.

Entrepreneurs cope well with living in **ambiguity** and view learning about new ways of doing things, different cultures, and changing markets as a natural part of life. They encourage others around them to embrace and manage change.

Taking the Path Less Trodden

Dean Kamen, US inventor/entrepreneur and founder of **DEKA** was once asked by a news reporter: 'Does anybody in your life ever say to you - you're nuts!' He responded: **"All the time. I consider it a high compliment. If most people think what you are doing is completely normal it probably is. Why do it? Everyone else is doing it."**

In embracing change, entrepreneurs must be able to **pivot**. That is, they move in the right direction when the time strikes. But, when required, they must also be able to turn, or **pivot** to another course.

Ahead of the Game

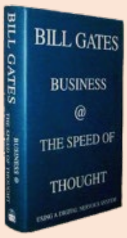
As Bill Gates said of his US company Microsoft: **"In three years, every product my company makes will be obsolete. The only question is whether we will make them obsolete or somebody else will."** (Gates & Hemingway, 1999, p. 20)

Zhang Mo is the founder and CEO of the Chinese company Yi+. They build visual engines for artificial intelligence systems. In 2019, Yi+ broke the world record for computer vision software by exceeding 90 percent accuracy.

Change must be rooted in a clear vision. This vision should not only articulate what the entrepreneur wishes to accomplish, but must also be able to predict future trends.

Future Oriented

Bill Gates' 1999 book **'Business @ the Speed of Thought'** made 15 daring predictions which many people may have considered outrageous at the time. Yet with the benefit of hindsight, we can see how astute he actually was. Among his predications were: price-comparison sites, people carrying around small mobile devices, instant payments and online financing, social media and smart [personalised] advertising.



Networker

Entrepreneurs can actively engage with a large number of people. They are involved in the **social construction of value**. In creating value with their products and services, they interact with key stakeholders, such as venture teams, financiers, and customers.

The Importance of Social Networks

Richard Branson summed up this sentiment when he stated that business is all about personal contacts. Regardless of how heavy a person's workload is, 'everyone' can and should be a networker.

Importantly, as **Richard St John** (TED, 2005) noted in his eight secrets of success, entrepreneurs seek to serve people, not themselves.

Serving People

Chinese entrepreneur **Daisy Guo** matches freelance designers with projects through her company, **Tezign**. Her start-up has assisted more than 8,000 businesses, including Unilever and Special Olympics International.

Integrity

While the general public may consider 'entrepreneurial integrity' to be an oxymoron, long-term entrepreneurial success depends on an entrepreneur having extremely high standards of behaviour, both inside and outside of their venture.

Integrity in Business

Sir Angus Tait's (a New Zealand communication technology entrepreneur), first business venture, **A M Tait Ltd,** failed in 1967, leaving numerous unpaid creditors. He rebuilt a new business called **Tait Electronics** and repaid all his old debts with profits obtained from his new company – even though there was no legal requirement for him to do so.

[Image: HdV]

Oprah Winfrey, US media entrepreneur, is reported to have said that real integrity requires doing the right thing, even if nobody knows whether you did it or not.

Integrity relies on an entrepreneur creating their own value system that underpins their business activities, regardless of whether they receive recognition for their actions or not. Entrepreneurs also expect the same high standards from their employees and within their business systems and procedures.

Entrepreneurship for a Sustainable World

As Derek Handley, New Zealand entrepreneur and member of The B Team* said: **"There needs to be a better way for business to operate this century if we are to create a sustainable and prosperous future for the world."** (Handley, 2013)

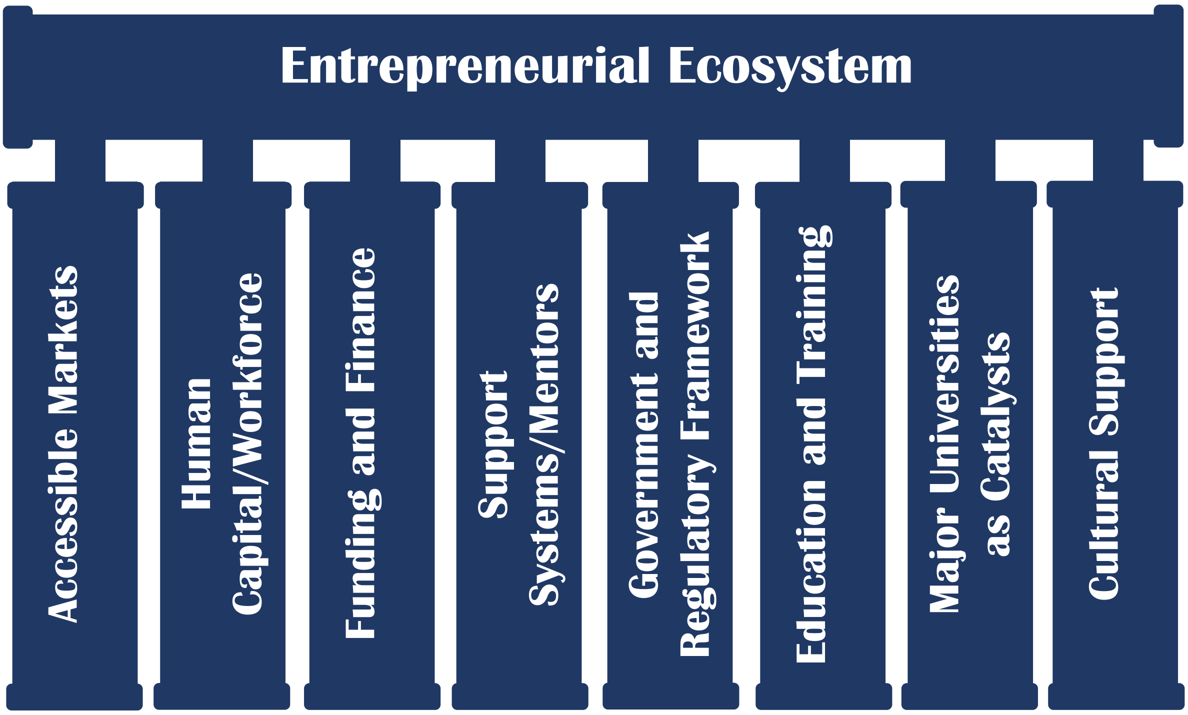
***The B Team** was formed by Sir Richard Branson and Jochen Zeitz in 2012. It is a non-profit initiative that has brought together global leaders from business, civil society and government. It seeks to promote a better way of doing business, one which prioritises the wellbeing of people and the planet.

***Important**: Remember that this list is not all-inclusive and not every entrepreneur has the same characteristics.*

The Context Paradigm

We must also consider the relevance of 'context' in entrepreneurial activity. Research in this field has focused on understanding the variable environmental conditions (political, sociocultural, technological, economic and natural) which influence an entrepreneur's values, beliefs, attitudes, style and capability.

Figure 2.1
The Eight Pillars of an Entrepreneurial Ecosystem



Source: World Economic Forum (2014, p. 6).

Entrepreneurial Ecosystem

The term, entrepreneurial ecosystem, has gained prominence in recent decades as a means of explaining the diverse sets of inter-dependent business activities within a specific geographic region. This ecosystem is believed to influence the formation and rapid growth of an entire group of entrepreneurial businesses and potentially impact positively on a country's economy.

The World Economic Forum (2014) suggests that there are eight pillars to the entrepreneurial ecosystem (Figure 2.1):

- **Accessible Markets**: This includes domestic and international markets, both within the private and public sectors.
- **Human Capital/Workforce**: This includes managerial and technical talent, as well as the ability to outsource and attract a migrant workforce.
- **Funding and Finance**: Access to varied sources of debt and equity capital. This pillar is extensively covered in the finance paradigm.
- **Support Systems/Mentors**: This term refers to the availability and quality of professional services, incubators and accelerators. This pillar also includes access to mentors and peer networks.
- **Government and Regulatory Framework**: This pillar considers how easy it is to start a venture (Figure 2.2). In particular, it is interested in how user-friendly legislations and policies are, whether basic infrastructure, telecommunications (e.g., broadband) and transport are accessible, and what level of tax incentives and international trading support there are (e.g., government trade delegations).
- **Education and Training**: This pillar considers the workforce's level of education: do they have university education, pre-university education, or specific entrepreneurship training?
- **Major Universities as Catalysts**: Universities promote entrepreneurship and play a key role in idea creation, innovation, and preparing work-ready graduates.
- **Cultural Support**: This pillar considers whether the culture is one which accepts failure, celebrates successful, and supports innovative people and values research: in short, it asks, is it a tolerant culture? A tolerant or supportive culture has a positive image of entrepreneurship and self-employment.

Table 2.1

World Bank Ranking: Ease of Conducting Business

Rank	Economy	DB score	Rank	Economy	DB score
1	New Zealand	86.8	11	Lithuania	81.6
2	Singapore	86.2	12	Malaysia	81.5
3	Hong Kong SAR, China	85.3	13	Mauritius	81.5
4	Denmark	85.3	14	Australia	81.2
5	Korea Rep.	84.0	15	Taiwan	80.9
6	United States	84.0	16	United Arab Emirates	80.9
7	Georgia	83.7	17	North Macedonia	80.7
8	United Kingdom	83.5	18	Estonia	80.6
9	Norway	82.6	19	Latvia	80.3
10	Sweden	82.0	20	Finland	80.2

Source: The World Bank (2020).

Figure 2.2 ranks the top 15 companies, in assending order, for ease of conducting business. New Zealand ranks very high. For example, in New Zealand registering a new company can be done online and only takes a matter of hours.

It is important to understand the pillars' implications. Boyd (2006) reiterates Van de Ven's (1993) suggestion that researchers' traditional focus on individual entrepreneurs underplays the importance of multiple actors (in both private and public infrastructure) that facilitate the creation of successful entrepreneurial ecosystems. In short, the creation of an effective environment for entrepreneurial activity depends on the linkage of multiple parts. The ultimate value of these parts has been the topic of much debate. This argument is illustrated in the following examples.

How can governments contribute to an entrepreneurial environment?

Perspective 1**: **Entrepreneurs are not essential to economic growth

This perspective is embedded in neo-classical thinking. Proponents argue that economic growth does not depend on entrepreneurs per se. Instead, they argue that entrepreneurial behaviour is a product of good core economic foundations. That is to say, if governments create conditions that are favourable to economic activity, then entrepreneurial behaviours will emerge and economic growth will result. Conversely, if the economic conditions are unfavourable then entrepreneurs will not emerge and the economy will become stagnant. Since the free-market reforms in the 1980s, successive New Zealand governments have embraced and promoted this view.

Perspective 2: Entrepreneurs are vital to economic growth

According to this school of thought, those nations which have a large number of individuals with entrepreneurial characteristics and capabilities will economically outperform those nations that do not have such individuals. The entrepreneur can be viewed as the catalyst that provides the spark for economic growth rather than specific interventions instituted by the government. In short, this view proposes that those societies which can attract entrepreneurial-minded individuals and/or nurture their own are more likely to perform better economically.

The value of entrepreneurial education, meaningful or myth?

Within the practitioner literature and entrepreneurial folklore there has been a great deal written about the '*self-made'* entrepreneur. Typically, the narrative tells the story of an outsider who does not fit within the traditional education system. Yet through their entrepreneurial traits and hard work they rise above formal education shortcomings to become wildly successful.

Weakness or Asset?

In his UK autobiography, **Like a Virgin** (Branson, 2012), **Richard Branson** reveals that at school he was active and intelligent but had difficulty focusing. Many of his teachers viewed him as stupid and lazy, traits which he now attributes to undiagnosed dyslexia. As he grew older and began to learn about the mechanics of dyslexia and other learning difficulties, he was able to adapt his management style. He now considers this to be one of his greatest business strengths.

Other studies assert the importance of education in entrepreneurial development. The distinction between these two views may lie simply in the differing interpretations of the terms, *education* and *learning*. It can be argued that successful entrepreneurs are engaged in ongoing learning. However, this does not need to be limited to academic endeavour, as learning may also occur through practitioner and/or formal training means. For example, in his study of entrepreneurial behaviour in different ethnic minority communities, de Vries (2008) concurred that continual learning plays an important role in entrepreneurial propensity. He found that specific ethnic minority communities are more likely to produce fewer entrepreneurs when: (1) they have high youth drop-out rates from the education system; and (2) those youth do not go on to engage in any other forms of formal training or skill development.

Miles et al.'s (2017) study on entrepreneurial learning within accelerator programmes highlights the importance of authentic learning. At the beginning of three accelerator programmes, participants were asked to assess their confidence in their entrepreneurial capabilities. Significantly, these results were the same or higher than the follow-up self-reporting at the end of the programmes. These findings may suggest that while the participants had gained new skills through authentic learning, they had also gained a greater understanding of the complexities of new venture creation and as a result, had become self-aware of their own capabilities and limitations.

Ethnic Minority Entrepreneurship (EME)

Dutch migrants arrived in New Zealand during the labour shortages of the 1950s & 60s. Many migrants found the locals' nonchalant work ethic untenable. They subsequently went into business for themselves. [Image: HdV]

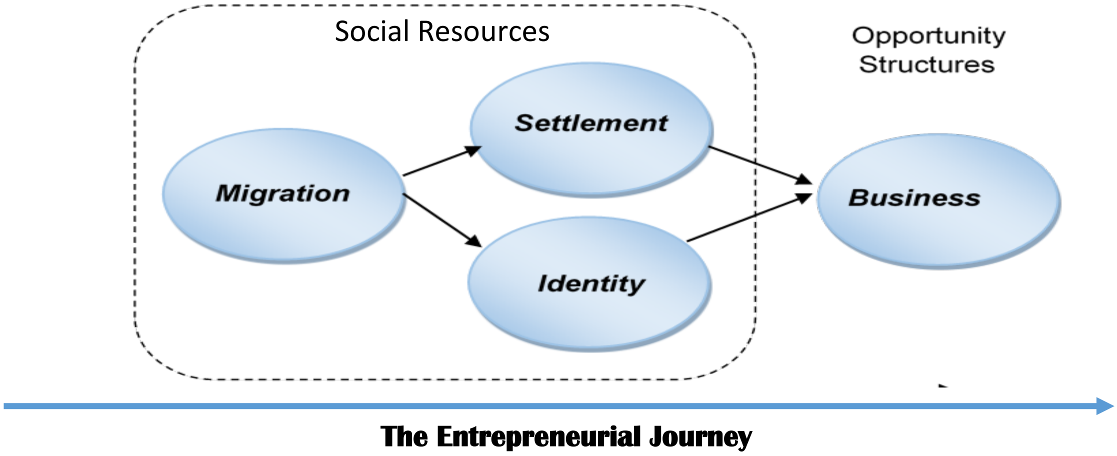
Describing ethnic minority entrepreneurs as a single cohort within society belies the complexity associated with the settlement and adaptation of different immigrant ethnic minority communities and intragroup differences between indigenous peoples. Current settlement thinking has been dominated by issues of race, culture, ethnic identity and nationalism (Fletcher, 1999). There has been a retreat from the traditional doctrines of minority community assimilation and the drive towards homogeneous societies. Thus, it is not surprising that, as they strive to achieve economic and social recognition, ethnic minority communities have often looked to their traditional cultural values and their own community connections for entrepreneurial opportunities within immigrant host countries. In trying to understand intragroup and intergroup differences, Elliott and Gray (2000, p. 5) have argued that *"there is little reliable research measuring cultural characteristics, and what there is does not differentiate among sub-groups."* Findings suggests that there is little understanding of how entrepreneurial behaviours:

- Differ between and within ethnic minority groups;
- In relation to gender (de Vries & Dana, 2012);
- How behaviour can change over time;
- Differ between ensuing generations (de Vries, 2012; de Vries & Kantor, 2013).

This shift in thinking has been driven, in part, by host countries' attempts to grapple with inequality and indifference on the part of their dominant communities, and the concentration of affluence.

de Vries, Hamilton and Voges' (2015) study of Dutch, Chinese, Indian and Pacific ethnic minority entrepreneurs in New Zealand provides an example of diversity in entrepreneurial behaviour. They contend that intergroup and intragroup entrepreneurial behaviours differ due to variable factors relating to their **migration**, **settlement**, and **identity** (Figure 2.3). These factors influence their access to social resources (ethnic and non-ethic capital), and subsequent **business** competences which allow them to take advantage of opportunity structures or entrepreneurial opportunities within the host country.

Figure 2.2
The EME Journeys in New Zealand



Source: Adapted from de Vries, Hamilton, & Voges (2015, pp. 95 - 114)

Indigenous Peoples: Māori Entrepreneurship in Bi-Cultural Aotearoa New Zealand

Countries with colonial histories, like Aotearoa New Zealand, Australia, Canada and the US, have taken a great deal of interest in the subject of indigenous entrepreneurship. The indigenous populations of these countries have often been over-represented in the unemployment and manual labour statistics. They tend to have poorer health and education levels. As a means of breaking this cycle, these countries promote entrepreneurship as an economic strategy for indigenous peoples. Policy makers have begun developing and implementing systems and processes designed to assist indigenous populations to play a greater part in the economic development of their people. It is hoped that these strategies will lead to increased social equity and greater prosperity for the country as a whole.

It is in the best interests of a country's economy as a whole if its indigenous community is entrepreneurial.

Māori Entrepreneurship

In June 2020, 850,500 citizens identified themselves as Maori in Aotearoa New Zealand (Statistics New Zealand, 2020a). This represented 16.7 percent of the country's total population, which at that time had just surpassed five million (Statistics NZ, 2020b).

Māori are widely accepted as Aotearoa New Zealand's *first people*. They migrated from East Polynesia to Aotearoa (the Māori name for New Zealand) in the 13th century. They predated the European settlers who arrived in the 18th century. However, as a consequence of colonisation events in the 1800's and early 1900's, the Māori people were relegated to becoming second-class citizens in their own country. Māori have their own specific history, culture, worldview, characteristics and traits that differ from the general colonial population and other New Zealand ethnic groups such as the Chinese, Indian and Pacific Peoples (Nandu-Templeton et al., 2017; Te Puni Kōkiri, 2010).

These exclusive Māoridom qualities challenge common notions of entrepreneurship as most definitions are based upon research conducted in 'Western' urban industrialised economies: for example, those in North America and Europe. Conventional definitions are built on ethnocentric entrepreneurship research which stresses individualism. They also tend to measure success in financial terms (e.g., 'Rich Lists' are popular in the business literature), and emphasise the entrepreneur's acquisition of personal assets. These values are often alien to indigenous cultures, especially in the Pacific where societies evolved in geographically isolated, predominantly agricultural island economies.

It has been recommended that any understanding of Māori or other global forms of indigenous entrepreneurship should emphasise the following elements (Hailey, 1987):

- **Communalism**: This refers to what the entrepreneur can contribute to the wealth of the whanau (family) and iwi (tribe), rather than the Western concept of individual wealth (as embodied by the Rich List).

- **Reciprocity**: This refers to the concept of giving something in return for something one has received. In terms of business activity, this goes beyond the commonly-held, pragmatic financial exchange approach dominant within the Western business ethos.

- **Social Gain**: This concept considers how the entrepreneur can contribute to the social betterment of their community rather than simply making money for him/herself: that is, the entrepreneur engages in business to benefit their whanau (family), hapu (larger kinship group) and iwi (tribe).

Negotiating Two Cultures

Mike Tamaki and his brother **Doug** created the successful Tamaki Village tourist attraction in their hometown, Rotorua, New Zealand. When asked about embracing dual entrepreneurial styles in a television interview, Mike replied: **"We fight two battles in our company. We fight forward to be commercially successful in the business world: and we have got to be very aggressive in that area. But we also fight another battle behind us to be culturally accepted in our world."**

Māori certainly have a cultural heritage and value system that does not necessarily reflect the traditional Western definitions of entrepreneurship. As can be seen in the example above (see the pink box), they embrace a dual style of entrepreneurship that reflects their own roots while still operating within the existing Western business norms.

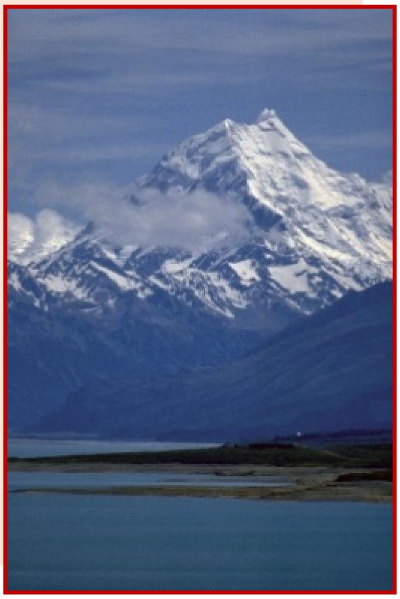
Nandu-Templeton et al. (2017) have explored Māori entrepreneurship from a cultural narrative perspective. They see it as a means of understanding and supporting entrepreneurial development. They suggest that Māori entrepreneurship could be viewed through the cultural lens of:

- **Papa Kāinga (Home) Narratives**: These accounts reveal the influence of one's home culture/s and tradition/s on the entrepreneur. The Māori entrepreneurs in this study narrated different connections to *whenua* (land), *whakapapa* (genealogy) and *whānau* (family).
- **Whakaaweawe (Influence) Narratives**: These accounts reveal the impact of influential people on entrepreneurial decision-making and the events that impacted or encouraged entrepreneurial behaviour. The authors considered the influence of *kin*, *friends*, *role models*, *teachers*, and *complete outsiders* on Māori entrepreneurship.
- **Rangatira (Leadership) Narratives**: These narratives reveal the entrepreneur's intentions and determinations and often display their desire to pursue outcomes that extend beyond simply meeting their own individual needs. The entrepreneurs transitioned from pōtiki (opportunistic behaviour and driven by individual benefit) to rangatira (one who acts for social collective benefit). In this context, rangatira is a term that is linked to kin-accountability. It is a state of entrepreneurial leadership that is acquired over time and experience, and identified by a shift in focus from purely economic outcomes to social and cultural outcomes.
- **Hangarau (Technological) Narratives**: These accounts draw on the influence of technology. In particular, they consider the technologies used, the technocrats employed or fostered, and the technical expertise utilised in, and by, their enterprises.

Aoraki (Mount Cook)

For **Ngāi Tahu**, the principal iwi (tribe) in the South Island of New Zealand, Aoraki is sacred and brings a sense of community and purpose. It acts as a link between the supernatural and natural worlds.

The connection and protection of land and water is of cultural significance to Māoridom.



Aoraki Mount
[Image: HdV]

The Capacity Paradigm

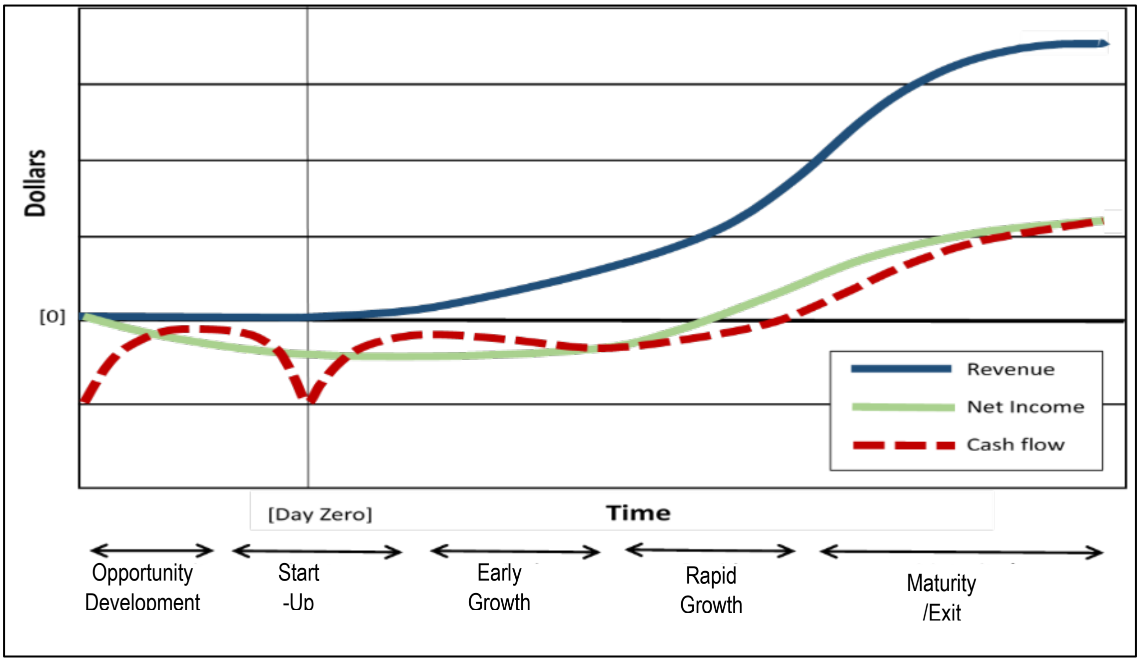
It is crucial to consider the capacity implications of entrepreneurial activity, and understand that these change at various stages of the entrepreneurial venture's journey. We examine these issues from a variety of perspectives: financial, entrepreneurial team, and networking standpoints.

The Financial Imperative

Appropriate and adequate funding is crucial for entrepreneurial success. Inadequate cash-flow can make or break a new or growing venture. It is, however, relatively common for entrepreneurs to underestimate by half, how much money they will need to take an idea to the business implementation stage (called day zero). Furthermore, entrepreneurs can be guilty of having an overly optimistic view of precisely how much time it will take for their new venture to start making a profit. As highlighted in Figure 2.4, in the early/development stages of a new venture, cash-flow and net income is often negative.

It is also important to understand that sources of funding can change over the course of the entrepreneurial venture journey. While the list provided in Table 2.5 is by no means 'all inclusive' it does provide an indication of the typical sources of funding at different stages of a venture.

Figure 2.3
Cash Implications of Different Stages of New Venture Development



Source: Adapted from Smith and Smith (2000).

Table 2.2
Sources of Funding for New Entrepreneurial Ventures

Sources	Development	Start-up	Early Growth	Rapid Growth	Maturity /Exit
Entrepreneur					
Family & Friends					
Crowd Funding					
Grants/Development Funds					
Angel Investors					
Venture Capital					
Asset-based Lender					
SBIC					
Trade Credit					
Factoring					
Public Debt					
IPOs					
Acquisition					

	Primary Sources		Secondary Sources

Source: Adapted from Smith and Smith (2002).

The Entrepreneur's Personal Funds

Any venture opportunity can begin with the entrepreneur using personal resources until such time as third-party financing is feasible. The entrepreneur may use their personal savings or take on debt secured against their personal assets. The entrepreneur's access to money is limited only by their capacity to secure and service the debt. Some entrepreneurs favour this approach because they do not want to lose control of their venture.

Family and Friends

These people often know the entrepreneur personally and have a sense of their capabilities and resilience. Often referred to as *'bootstrapping'* support, many entrepreneurs begin their business with financial help or resources obtained from their family or friends.

Humble Beginnings

It's surprising how significant garages can be! For example, **Steve Jobs** and **Steve Woznicik** of Apple famously began building computers in Job's parent's garage. Likewise, **Google** was incorporated by **Serge Brin** and **Larry Page** in their friend's (Susan Wojcicki) garage in Menlo Park, California.

The importance of trusted friends should not be underestimated. For example, in 1965 **Fred DeLuca** borrowed $1,000 from a family friend, Peter Buck, to start a sandwich bar, 'Pete's Super Submarines' in Bridgeport, Connecticut, USA. This sandwich bar later become the international franchise **Subway**. As they say – the rest is history.

Crowd Funding

This term refers to a means of funding a venture by obtaining monetary contributions from a large number of people. Entrepreneurs often use the internet or a particular platform like Kickstarter, to facilitate crowdfunding. This modern crowdfunding model is generally based on three factors: 1) the project initiator who proposes the idea and/or the project to be funded, 2) individuals or groups who support the idea and, 3) a moderating organisation (the "platform") that brings the necessary parties together. Crowdfunding has been used to fund a wide range of not-for-profit entrepreneurial ventures such as artistic and creative projects, or community-oriented social entrepreneurship projects.

The two most common types of crowd funding are:

1. **Rewards Crowdfunding**: Entrepreneurs presell a product or service. This approach enables them to launch a business without incurring debt or sacrificing equity/shares.

2. **Equity Crowdfunding**: In exchange for the money pledged, the backer receives company shares. These shares are usually offered in the early stages of a company's development.

Success Through Crowdfunding

Kickstarter [USA] was created in 2009 to help artists, filmmakers, musicians, designers, and other creators find the resources and support they need to make their ideas a reality. It is an independent, founder-controlled company which is located in an old pencil factory in New York. Perry Chen, the company's founder, has said that they spend their time designing and building Kickstarter, connecting people to inspiring creative projects, and having a lot of fun doing it.

Kickstarter commenced its online operations in 2009. By 2017 it had raised US$ 2.7 billion for more than 115,000 projects.


Rural New Zealand [Image: HdV]

Canassianeer Brewing [New Zealand] is a brewing company located in a small rural New Zealand town. In order to fund its expansion programme they employed crowdfunding. Using the internet to offer potential investors shares and an annual gift of beer, they targeted a capital injection of NZ$600,000. While they were successful in attracting one investor who contributed NZ$100,000, most of the other investors offered smaller amounts – each offering between NZ $5,000 - NZ$10,000. Using this method, the company was able to raise NZ$800,000.

Grants/Development Funds

Many governments and private organisations offer development grants to budding entrepreneurs with high-potential or promising creative ventures. Typically, there is a need to apply for these via a competitive application process.

Success Through a Grant

Victoria Ransom, New Zealand's social media marketing entrepreneur, spent four months competing for, and winning, a $250,000 grant from Facebook, which was instrumental in the creation of her company Wildfire.

Angel Investors

Some entrepreneurs rely on external funding from informal sources like angel investors - wealthy individuals who are interested in investing their money in the early stages of a venture development. These investors often provide 'seed capital' to help entrepreneurs develop an opportunity to a point where formal outside investment can be accessed. They often expect a return on their investment and require an equity holding in the venture. They typically exit the business within 5 - 10 years, with the sale or public offering of a successful business.

Venture Capital

For larger investments, the entrepreneur may choose to apply for more formal forms of capital. Venture capitalist are firms that run investment portfolios and invest large sums of money (into the millions of dollars) in several entrepreneurial ventures. These venture capital firms have experts whose primary job is to identify and nurture new ventures that have high potential. Often referring to these ventures as 'unicorns', these experts look for new ventures that have innovative technology which has the potential to change the world in some way.

The Bloom Box

An example of a venture that has sought and received venture capital backing is Bloom Energy, founded in 2001 by Indian-born inventor **K R Sridhar**. The venture manufactures solid oxide fuel cells (called the Bloom Box) that can produce electricity on-site. The company reportedly raised over $1 billion in venture capital funding before becoming a public company (IPO) in 2018.

As venture capitalists take a great risk investing in start-up companies, they expect extremely high returns, usually within a fixed timeframe (typically within 10 years, although this timeframe can be extended). The relationship between the entrepreneur and the venture capitalist generally takes the form of a partnership where the venture capitalist contributes funds, monitors the use of this money, sit on the board, and attends pertinent meetings. However, they have nothing to do with the day-to-day running of the venture: in essence, they are a silent/passive investor.

The key for the entrepreneur is to find a venture capital firm that specialises in their type of new venture. If the venture capital company likes what they see in a business plan (and it has the potential for good returns), then there is a high likelihood of investment.

Asset-Based Lender

Asset-based lending refers to the provision of debt capital for ventures which do not have sufficient cash flow to obtain unsecured debt financing. In this situation, the lender must ensure that the venture has enough cash-flow to repay the debt over time. They loan money on the basis that, if required, they can liquidate business assets to service the debt. Assets may include accounts receivable, inventory, the plant/factory, land – anything that has a verifiable market value. It is not common practice for asset-based lenders, such as trading banks, to require director guarantees backed by assets such as a personal home.

Trade Credit

This is where an entrepreneur purchases goods or services from a supplier and takes advantage of credit terms. To explain, in effect payment 30 days following purchase gives the entrepreneur a free loan for a month – or more if they are late in paying. However, this can be very expensive. It is not uncommon to receive a discount if purchases are paid for within seven days. Hence, the entrepreneur must weigh up the opportunity cost of the money and the benefits associated with paying within the required period.

Exercise 2.1: To Pay on Time, or Not to Pay on Time

de Vries Design factory, New Zealand [Image: HdV]

..In the early 1990s, New Zealand was in the throes of radial change, as it transitioned from a government-controlled economy to a free-market economy. During this time, certain industries like manufacturing and agriculture experienced significant stress.

de Vries Design – a furniture manufacturing company experienced cash-flow difficulties as a result of these changes. As a consequence, the company often took 60-90 days to pay its suppliers – which in effect gave them non-interest loans for up to three months. The owners decided to establish a new business model based on a smaller niche market. They quickly began experiencing a return to positive cash-flows and were able to take advantage of the 5-10% discounts their raw material suppliers were offering in return for payments made within seven days.

In financial terms, the cost of paying creditors late was very high, as implicit interest for extending payment terms had at times been 44%.

Question: When might it be appropriate to extend credit terms?

Factoring

In simple terms, factoring is the process in which an entrepreneurial venture hands its invoices (that is, its receivables portfolio) over to a factoring company. In return, they receive between 80 to 90 percent of the face value of the invoices immediately and the balance when the debts are paid to the factoring company – less their charges for offering this service. In effect, factoring injects much needed cash into the enterprise and removes the burden of collecting account receivables (de Vries, 2004; de Vries & Cameron, 2005). However, in exchange for this service, the entrepreneur must forgo a percentage of the invoice value which is often a higher end cost than a bank overdraft (debt funding).

IPOs

An initial public offering (an IPO) raises capital via the stock market. Ownership in the venture then become publicly held. This is often the exit point for venture capitalist or other private investors. As the stock market is highly volatile there can be 'good years' and 'bad years' to attempt IPOs.

While public companies are able to raise additional capital quicker and more cheaply than non-public entrepreneurial ventures, there are far more compliance costs and regulations that they must meet.

Other

There are also many *country-specific* funding options. Through Small Business Administration (SBA), some federal governments in the US seek to stimulate the formation and development of new ventures by providing guarantees for private loan funding.

The HR Imperative: Building an Entrepreneurial Team

In their quest to remain independent, an entrepreneur will often seek to maintain personal control through total ownership of the venture they have created and controlling all the key decision making. Such an autocratic style can be very effective in the initial start-up phase of a new venture. However, when it comes to growing the venture and entering the global marketplace, it becomes increasing difficult to 'go it alone'. A high-quality team is essential for maintaining and growing an entrepreneurial venture.


Dublin, Ireland
[Image: HdV]

When deciding whether to fund a specific venture or not, investors such as venture capitalists, place a great deal of emphasis on the performance potential of the entrepreneurial team. In fact, creating an entrepreneurial team with the right combination of skills and knowledge from the outset, is far more effective than employing a haphazard reactive approach to managing human resource needs.

But what is an entrepreneurial team? Stockley provides a useful definition: the "*entrepreneur(s) founding team which is bound by personal relationships and forms a 'nucleus' around which additional members can be recruited as the venture grows*" (cited in Birley &

Muzyka, 2000, p. 206). Stockley notes that while this can produce an inner core and outer team, it is the founding entrepreneur(s)' responsibility to weld these together into an integrated whole.

Staff Empowerment

As stated earlier, a deep-seated problem for some entrepreneurs is their unwillingness to release any control over their venture. This ultimately disempowers their key staff. Empowerment involves the entrepreneur delegating power and authority to the team and individuals within the team.

Four elements that enable a team to act more freely and effectivity are:

1. **Access to the Required Information**: Teams that are fully empowered have access to all of the financial, operational and market information pertaining to the venture.

2. **Knowledge and Skill Development**: The team members are able to acquire the skills and knowledge they need to contribute to the venture.

3. **Choice**: Teams have authority to influence work procedures and make decisions for the venture.

4. **Rewards Related to Performance**: Team members are rewarded based on some form/s of venture performance.

Developing and Maintaining an Entrepreneurial Team (Systems Approach)

Systems theory (Figure 2.4) is a widespread management approach in which ventures, or sub-units of a venture, are viewed as interrelated parts – inputs, transformation process, outputs and feedback. These parts are arranged in a way that creates synergy and a unified whole. This approach can be applied by an entrepreneur in constructing an effective entrepreneurial team (Table 2.1).

Figure 2.6
Systems Theory

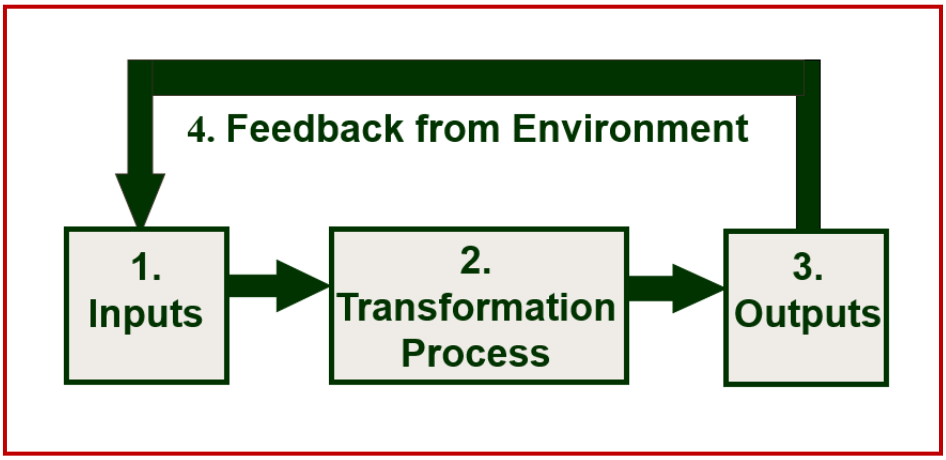


Table 2.3
A Systems Approach to Entrepreneurial Team Development

INPUTS	**The Venture:** The entrepreneur should clearly define and articulate the nature of the new venture, the values and vision, each member's expected contribution, and the overall philosophy. **Operational Setting:** The entrepreneur should ensure that there is adequate technology, information, resources and appropriate rewards so that the entrepreneurial team can function at a high level. **Team Size:** In the start-up phase, smaller teams work better than large teams. The 'sweet spot' may be at 5 or 7 members; however, this is clearly contingent on the situation and specific venture. **Member Profiles:** While a company may have a diverse range of personalities, abilities, technical capabilities and complementary skills, there must be a congruence in values and vision. That is, has the entrepreneur ensured that there is an appropriate range of knowledge and skills in the team and that all these members share the same core values and goals?
THROUGHPUTS Group Processes	The entrepreneur must have a team that can interact and work together effectively and efficiently: • Ensuring that there are clear lines of **communication** through formal and informal mechanisms such as team meetings, shared work spaces, project-based activities, and celebrating and sharing successes. • Rather than employing a top-down approach, the entrepreneur must ensure that there is **shared decision-making** and that each member is accountable for some aspect of the venture. • Establish a strong work ethic and teamwork **norms**. • Through shared values and goals establish a **cohesive** team. • Foster constructive **conflict** which stimulates efforts, cooperation and creativity; whilst simultaneously being willing to employ accommodation, compromise or procedural solutions if destructive conflict occurs.
OUTPUTS Team Effectiveness	The entrepreneur can employ mechanisms to measure the desired outcomes, including: - **Milestones and goals** that must be set in the first two stages (e.g., growth and financial performance outcomes). - **Satisfaction** among the entrepreneurial team. - **Long-term viability** of the entrepreneurial team.

Feedback

The Networking Imperative

Closely aligned to the HR perspective, is the networking perspective. The importance of the entrepreneur's personal networking capability was introduced in the trait paradigm. From the capacity paradigm's standpoint, networking is concerned with an entrepreneur's ability to build the working relationships required to maintain and grow the venture beyond its existing internal capacity or build external business networks and alliances.

Traditionally, business networking involves the creation of relationships which offer some form of *mutual benefit*: however, all network partners/participants remain as autonomous business entities. Simply put, business networking is a socioeconomic activity by which groups of business people, predominantly entrepreneurs and professionals, work together to create or act upon business opportunities more effectively. In essence, they create synergies in their venture activities. Research into business networks has concluded that they perform well as a means by which entrepreneurs can expand, engage with, and manoeuvre through the fluctuating environment that is the globally connected demand for goods and services, and provide solutions for global problems.

[Image: HdV]

It is important to stress that business networks are much more than the entrepreneur's day-to-day business-to-business relationships (B2B). For example, B2B can be as simple as the German toy manufacturer Heunec selling their Gustav soft toy to a retail chain of department stores. Network relationships tend to be far more complex, fluid, and multi-layered. It is important to remember that the networked ventures *still maintain their individual and legal identities*, which means that the venture partners are self-regulating and often come from diverse industry backgrounds. But, when these networks are effective, they can improve the entrepreneur's ability to solve complex issues that their ventures may not be able to resolve alone. Secondly, these networks tap into the individual skills that each member brings to the network. Proponents argue that business networks bind entrepreneurial ventures together in ways that produce better outcomes for all of the partners/participants in the network than what they could individually achieve.

Business Clusters

These are a particularly useful form of business networking. This is a network of interconnected businesses, suppliers, and associated companies or institutions that operate in a particular business sector. They are typically concentrated in a particular geographical area. Clusters can increase efficiency and productivity, meaning that the participating companies are more competitive, both nationally and internationally. Nations are typically competitive in 'clusters' of related and support industries.

Successful Clusters

Renowned international examples of business clustering include:

Silicon Valley, California continues to be the leading hub for high-tech innovation, development and manufacturing in the US.

Dalton, Georgia has a population of 33910 (2021). Referred to as the "Carpet Capital of the World", there are 150+ carpet plants within a 100 km radius of Dalton, Georgia. The industry employs more than 30,000 people and produces 85-90% of the carpet in the US. It accounts for almost half the world's carpet output.

Biella, Italy has a population of 46,000. Until the late 20th century this city produced two thirds of Italy's textiles.

Castel Goffredo, Italy has a population of 12,000 (2021) and is considered a centre of expertise in the production of socks and of lingerie. Reports suggest that it produces half of Europe's socks.

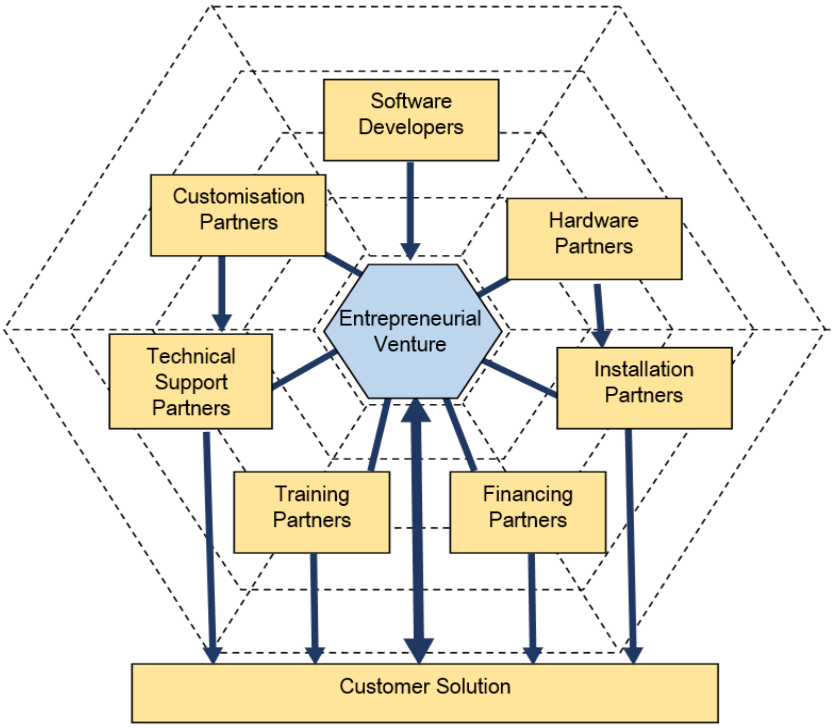
A Virtual Organisation – the Network Web

To maximise flexibility, an entrepreneur can engage in a virtual organisation in which there is a central entrepreneur who manages and promotes the venture's primary activity. However, the ongoing activities within the venture are undertaken by virtual network partners who act as part of an overall organisational structure. These virtual organisations are commonly living and adaptive systems. They come in many forms, such as an agile web (Allen, 1999) in which, for the most part, the customer is only aware of the entrepreneurial venture. For example, an entrepreneur with an innovative new product venture may not have the time or ability to establish a manufacturing plant or a distribution system. Instead, they may align themselves with compatible manufacturing and logistics companies which bring the key competences the entrepreneurial venture lacks. Yet, from the customer's perspective the company appears to be a single organisation. Other forms of network webs outsource specific activities to private contractors, such as using courier companies for delivery.

In these forms of networking, the entrepreneur's venture is typically in the middle of the web with a pool of partners (or members) who move in and out of the web as required. The entrepreneur who facilitates the primary activity, such as selling a product or service, may benefit from reduced 'time to market' and building all network members' market share. There are also strategic benefits in sharing infrastructure, research and development (R&D), risks and costs. In short, the web is composed of interrelated organisations that create a *critical mass*, so that the entrepreneur can compete against large corporates and/or service larger markets. In fact, to the outside world, the entrepreneurial venture may look larger than it is, as all partners work together. Furthermore, the set up may provide the entrepreneur with an opportunity to migrate from simply selling products to selling solutions. For example, an entrepreneur with a business software venture (Figure 2.6) may not only sell its inventory control software which is designed to manage complex inventory systems within large organisations, but, via its partners, offer a complete package which includes software, hardware, technical support, installation, customisation, financing, and training.

Figure 2.5
A Network Web

An entrepreneur may not only sell its inventory control software but offer a complete service: hardware, technical support, installation, customisation, financing, and training via its network.



Exercise 2.2: Cambridge Studs New Zealand (NZ)

Cambridge, located in the Waikato region of New Zealand, is home to a world-renowned thoroughbred breeding cluster. To support the numerous thoroughbred stubs that operate in Cambridge there are a number of related groups and associations: the Massey University Equine Research Foundation, the Racing Industry Board, the NZ Farriers' Association, the NZ Trainers' Association and the NZ Thoroughbred Breeders' Association. To complement the studs there are Apprentice Training Cadet Scholarships, NZ Pony Clubs, the Cambridge Jockey Club, and Equine Certificate Training by accredited institutions.


Motukarara race course, NZ [Image: HdV]

Support industries within this cluster include veterinary services, fertiliser suppliers and soil analysts, fencing contractors, horse transporters, grain and feed merchants, leasing services, farriers, insurance services, specialist equipment suppliers, auction agents and bloodstock agents.

Cluster intersections include eventing /show-jumping/dressage events, polo, harness racing, horse trekking and tourism. These organisations all compete and/or collaborate to create a stronger thoroughbred industry. Source: Akoorie (1999)

Question: How has clustering benefited New Zealand's thoroughbred industry?

Chapter Summary

Chapter One proposed a definition of entrepreneurship which sees it as a process-oriented endeavour. The entrepreneur's behaviours and pursuits are opportunity recognition oriented within environment they are embedded. They are able to marshal scarce financial, human, and other resources to pursue the opportunity. This definition is enacted through the entrepreneurial journey model or the paradigms of entrepreneurship which are described in the 4Cs.

This chapter has introduced the first three of the 4Cs of entrepreneurship: characteristics, context and capacity. Key 'take homes' are:

- Successful entrepreneurs are often risk-takers, achievement orientated, independent, have a strong internal locus of control, willing to embrace change, an adept networker, and have high levels of integrity.
- The entrepreneur's values, beliefs, attitudes, style and capability are influence by the entrepreneurial eco-system and the cultural **context** in which they are embedded.
- In establishing venture **capacity**, the entrepreneur must grasp the financial, team building, and networking imperatives.

Chapter 3: Paradigms of Entrepreneurship – The 4Cs (Part II)

A journey of a thousand miles begins with a single step

Another way to examine the activities involved in entrepreneurship is through a **creation** paradigm. In many respects, this approach brings together the other three paradigms into a cohesive whole: it depicts the **process** of the **entrepreneurial journey** (see Chapter One, Figure 1.1). Process theories offers a comprehensive depiction of the entrepreneur(s) in action. Its application involves more than the planning, organising, leading and controlling we attribute to traditional management theory.

The Creation (Process) Paradigm

Creation theories relate more effectively to the tangible process (as in the actions associated with creating a successful venture). Theories included in this paradigm consider the different aspects of how the entrepreneur actually navigates through the process, beginning with idea generation, venture creation, growth and exit.

The Business Plan (Classical Process Approach)

An entrepreneur must find, evaluate, and develop an opportunity, all the while overcoming the forces that resist the creation of something new. According to Hisrich, Peters, and Shepherd, (2008) this process has four distinct phases:

(1) The identification and evaluation of opportunities,

(2) The development of a business plan,

(3) The determination of the required resources, and

(4) The management of the resulting enterprise.

The business plan is an iterative process that takes time, confronts many prospective challenges, and is fundamentally creative in its application. The phases and their sub-activities are outlined in Table 3.1. Although this table lacks detail per se, it reveals the structured nature of the classical process approach in which the entrepreneur's journey is outlined in, and predicted to follow, the logical steps articulated in the business plan. This approach is very popular with many stakeholder groups. Prospective lenders (such as trading banks) wish to see a blueprint of the venture. Similarly, equity investors review the business plan in their evaluation of the investment opportunity.

Critics of the business plan state that in the current technological and information era it does not suit the classical approach. For example, Watson and McGowan (2019) assert that business plans are underutilised and internally irrelevant. Furthermore, they contend that they are an unnecessary feature of an action-led approach and are only useful when needed by external parties. The prevailing orthodoxy is that change is rapid, less predictable and unrelenting and that a plan becomes obsolete as soon as it is completed. In short, business plans need to be more dynamic and adaptable in their nature.

Table 3.1

Aspects of the Entrepreneurial Process

Identify and Evaluate the Opportunity	Develop a Business Plan	Resources Required	Manage the Enterprise
• Opportunity assessment • Creation and length of opportunity • Real and perceived value of opportunity • Risk and returns of opportunity • Opportunity versus personal skills and goals • Competitive environment	• Title page • Table of contents • Executive summary • Major sections: 1. Description of business 2. Description of industry 3. Technology plan 4. Marketing plan 5. Financial plan 6. Production plan 7. Organisation plan 8. Operational plan 9. Summary • Appendices	• Determine resources needed • Determine existing resources • Identify resource gaps and available suppliers • Develop access to needed resources	• Develop management style • Understand key variables for success • Identify problems and potential problems • Implement control systems • Develop growth strategy

Source: Hisrich, Peters, & Shepherd (2008, p. 8).

Effectuation

Effectuation theory: draws on cognitive theory which asks how an entrepreneur's cognition differs from other individuals and how an entrepreneur deviates from traditional rationality. It also considers the specific cognitive processes involved in their opportunity recognition.

Effectuation describes: "(1) an expert entrepreneur's way of thinking that (2) extends the notion of rationality in presenting a rational alternative for contexts of high uncertainty by (3) de-emphasizing exploitation of pre-existing information and emphasizing the creation of, rather than the recognition of, opportunities" (Mauer, 2015, p. 118).

What does this mean? It can be argued that entrepreneurs engage with many stakeholders and utilise their networks in an evolving process of sensing and seizing opportunities, marshalling resources and pivoting. While the literature offers several principles of effectuation, the most commonly referred to are:

- **Means**: Means specifically refers to the entrepreneur's highly individual personal preferences, accumulated knowledge and experiences, and person-specific network contacts.
- **Affordable Loss**: This term not only includes risk awareness but also the actual investment of elements such as reputation, time and money. The loss principle argues that this must be applied to both the entrepreneur and to future partners.
- **Partnerships**: Refers to alliances created via partners' self-selection and pre-commitments. Building partnerships can be considered a dominant activity from day one.

- **Embracing Contingencies**: The entrepreneur's journey may include a wide variety of serendipitous events. The fact that goals are vague at the beginning of an effectual process creates the possibilities of approaching surprises. In short, uncertainty is a resource and a process, rather than a disadvantageous state. (Mauer, 2015, p. 124)

Effectuation in practice: The commonly taught method to venture creation revolves around a structured approach or a business plan (see the classical approach). In short, entrepreneurs start with a desired outcome and determine how they will get there. However, some entrepreneurs disagree with this approach. Instead, they prefer a more effectuation approach. In this approach, the entrepreneur begins by defining *who they are*, *what they know*, and *whom they know.* They begin by 'doing the doable' with as few resources invested as possible. This requires the entrepreneur to interact with a wide variety of potential stakeholders and negotiate actual commitments to the venture. Once they have these, the entrepreneur uses these commitments to reform the venture's principal goals. The entrepreneur may repeat this process until their network of stakeholder commitments aligns with the framework for a viable new venture.

The classical approach is very predictive because it depends on accurate predictions and clear goals. In contrast, the effectuation approach is non-predictive and depends on the entrepreneur's group of stakeholders. Effectuation is not necessarily better than the conventional causation approaches. Rather, what this example suggests that for entrepreneurs, there can be more than one way of thinking about venture creation, or product and service development.

Source: Adapted from Sarasvathy (2006)

Exercise 3.1: Classical or Effectuation?

Before moving to London, my daughter Anna was a senior chef at a popular restaurant in Christchurch, New Zealand. If she was assigned the task of cooking the meal for a corporate function there are two ways she could approach this. She could take the conventional approach in which the customer picks meal choices from a selection of standard menus. Anna would then order the ingredients from suppliers and prepare the meals for the function (causation). Otherwise, the customer could ask Anna to go through the restaurant's existing ingredients and equipment and prepare something special. She could then come up with different possible outcomes, select a menu, and cook the meal for the function (effectuation).

After four years of experience working as a sous-chef in London, UK, she is now returning home. She has been offered a position back with her previous employer which she has accepted. But in the medium-term she wishes to open her own restaurant in Christchurch.

Question: Think of an example of both a traditional and effectuation process approach Anna could utilise in establishing a Thai Restaurant in her home city.

The Bygrave's Entrepreneurial Events Formation Approach

This approach contends that entrepreneurship is not simply a series of isolated activities or undertakings. It highlights the process of entrepreneurial activity, focusing on factors such as initiative, organisation, administration, risk taking, and environment. Bygrave (1989) has suggested four distinct events, with influencing factors that affect each event in the process:

Innovation – the creative idea. This refers to the creation of ideas for new products and services, or devising better ways of doing things (Note: This is simply the 'idea creation' stage). The influencers include *personal factors* (such as traits, education and experience) and *environmental factors* (such as opportunities, role models and creativity).

Trigger Event – this refers to the event which spurs the entrepreneur to actually do something about their idea. It is one thing to think of an innovative idea, but it is another to put it into action. The trigger event <u>or events</u> are things that cause or allow the entrepreneur to test, prototype or trial their idea(s). The influencers include *personal factors* (such as traits, job dissatisfaction/loss and age), *sociological factors* (such as networks and family) and *environmental factors* (such as opportunities, resources, competition, and government policies).

Implementation – refers to the actual commercialisation of the business idea. In reality, this involves starting and running a business or making changes to an existing business' products, services or processes. The influences include *personal factors* (such as leadership, management capability, commitment and vision), *sociological factors* (such as networks and family role models) and *environmental factors* (such as resources, competition, government policies, suppliers and investors).

Growth – refers to the business' expansion. After the initial start-up period, an owner needs to consider what is needed to grow the business. The influences include *personal factors* (such as entrepreneurship, leadership, commitment and vision), *organisational factors* (such as teams, strategy, structure, culture and products) and *environmental factors* (such as competition, government policies, suppliers, investors, bankers and resources).

Source: Adapted from Kuratko & Hodgetts (1998).

Business Model Canvas

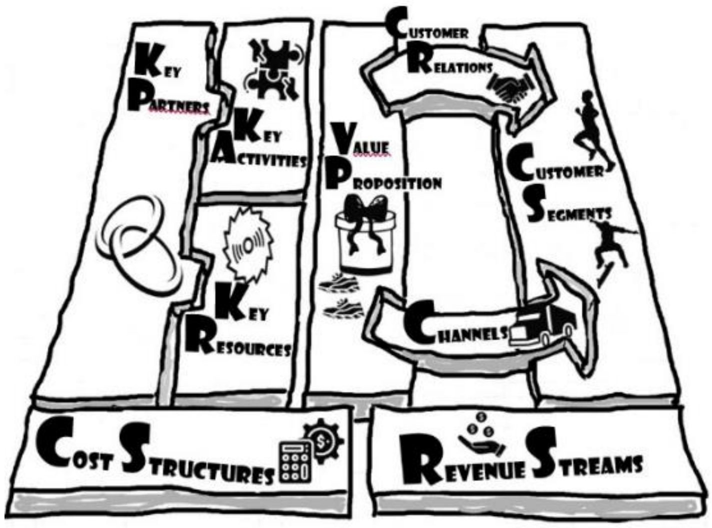
Current literature (de Vries & Hamilton, 2021) suggests that for a venture to successfully grow and navigate a turbulent business environment, the entrepreneur's personal resilience needs to be accompanied by business model resilience. The Business Model Canvas (Osterwalder, 2005) is a strategic management and entrepreneurial tool which aids in the development of a strong business model. In applying this approach, the entrepreneur will be able to describe, design, challenge, and invent elements which are considered critical for business model development and any future pivoting. With this model, an entrepreneur's venture can be described using nine basic building blocks:

1. ***Customer Segments****:* For whom is the business creating value? Who are the most important customers? This includes users and paying customers (they can be different!).

2. ***Value Proposition**:* What value does the business deliver to each of the customer segments? Which one of the customer's problems is the business helping to solve? What bundles of products and services are being offering to each customer segment? Which customer needs are being satisfied?
3. ***Channels**:* Through which channels do the customer segments want to be reached? How is the business reaching them and creating value now? How are the channels integrated? Which ones work best? Which ones are most cost-efficient? How is the business integrating them with customer routines?
4. ***Customer Relationships**:* What type of relationships have been established with customer segments, or what types of relationships do they expect the business to establish and maintain with them? Which ones have been established? How are they integrated with the rest of the business model? How costly are they?
5. ***Revenue Streams***: How and through which pricing mechanism is value captured? What amount are the customers really willing to pay? What do they currently pay for similar products or services? How are they currently paying? How would they prefer to pay? How much does each revenue stream contribute to the business' overall revenue?
6. ***Key Resources**:* What is the infrastructure that creates, captures, and delivers value? What key activities do to the business' value propositions require? What assets are indispensable for value creation, distribution channels, customer relationships, and revenue streams?
7. ***Key Activities**:* What activities create the value proposition? What things need to be performed well?
8. ***Key Partners**:* Who are the key partners that can help leverage the business model? Who are the key suppliers? Which key resources are acquired from partners? Which key activities do the partners perform?
9. ***Cost Structure**:* Once the business model's infrastructure is understood, cost structure becomes self-evident. What are the most important costs inherent in the business model?

These blocks can be mapped using a single image (Figure 3.1).

Figure 3.1
The Business Canvas Model



Source: Adopted from Steve Blank (www.steveblank.com)

The Entrepreneur: Putting it all Together

Putting it all together necessitates interlacing the 4Cs (characteristics, context, capacity and creation) into a broader understanding of the entrepreneur's journey. This section reviews the **entrepreneurial paradigms** in the context of an entrepreneurial journey which proceeds through six stages: opportunity identification and innovation, triggering event, acquiring the necessary resources, implementation through start-up venture, managing growth, and harvest or exit.

Opportunity Identification and Innovation

Entrepreneurial ventures begin with some form of opportunity recognition. Creating a product or service where there is no clear and obvious need, or enough customers, will invariably fail. You may feel that you have an innovative or exciting product or service, but is it different enough to make the market switch? Is there enough benefit for customers to change their preferences or behaviours? Is it easy to understand and use? In short, is it really solving an obvious problem for customers?

Failed Attempts

Michael Hill [New Zealand] has been internationally successful with his 'Michael Hill Jewellery' chain. He currently has 312 stores across Australia, Canada, New Zealand and the US (2018). In an attempt to diversify his brand and expand his business, in 1992, he opened Michael Hill Shoes. This business failed because he did not understand the shoe market or offer anything new. Furthermore, by marketing shoes, he created brand confusion. In 1994, he closed his shoe stores and refocused his energies on the jewellery market. Speaking of his failure, he admitted, **"It's like L'Oréal going into socks; Michael Hill Shoes just didn't fit."**

Claytons [Australia] was launched as a non-alcoholic, non-carbonated drink coloured and packaged to resemble bottled whisky. It was heavily marketed in Australia and New Zealand in the 1970s and 1980s, with the slogan ***"the drink you have when you're not having a drink"***. It was meant to be a social drink for people who preferred not to drink alcohol or those who wanted to drive home after a social event. While it never took hold (as not many people liked the taste), the word "Claytons" has now entered the New Zealand (Kiwi) vernacular as a compromise that satisfies no one. In short, it did not satisfy alcohol drinkers and non-alcohol drinkers preferred established options.

Innovation

Innovation refers to the process of translating an idea or invention into a good or a service that creates value which customers are willing to pay for. Innovation is a combination of: (1) the vision needed to create a good idea and (2) the perseverance and dedication to remain with the concept through the implementation process. Not all innovation needs to be radical. In fact, there are different typologies for innovation (see Table 3.2), depending on the type of innovation and whether the innovation relates to products, services or an organisation's operational systems.

Table 3.2
Typologies of Innovation

Type	Product	Service	Systems
Revolutionary **(Disruptive)** Radically new and transformational. May be responsible for a new era of human endeavour	Invention of the automobile in the 1800s The Hamilton jet boat in the 1900s	The advent of telecommunications in the 1800s Stem cell treatment in the 2000s	Mass production of the early 1900s
Evolutionary **(Incremental)** *Synthesis or extension* - combination of existing uses, or different application of existing use	Dettol evolved from a disinfecting product to a disinfectant and cleaner	Advent of combination florist and gift shops	Mass production introduced to the food industry
Duplication - creative replication in a new environment or context	Kathmandu (NZ) has developed a range of outdoor recreation products for the Australasian market	TradeMe is a NZ online trading platform, offering similar services to eBay	Steve Tindall's 'The Warehouse' (NZ) replicated Sam Walton's (Walmart) business model

Exercise 3.2: Misty Cove

Misty Cove is a family owned and operated winery located in the Wairau Valley of New Zealand. They have established a reputation as an innovator in the wine-making industry. Misty Cove identified a gap in the market in the extremely popular outdoor recreation sector of New Zealand: the inconvenience of carrying wine in bottle.

They became aware that there was growing acceptable in some overseas countries of drinking 'wine in a can', especially in the context of outdoor activities. In 2016, they introduced their own version of this product with the marketing catch phrase 'can-do-better'.

Question: What type of innovation would you call Misty Cove's new wine product which is promoted with the catch phrase 'can-do-better'?

[Image: HdV

From University Students to Billionaires

Google [USA] In 1996, Larry Page and Sergey Brin were Ph.D. students at Stanford University. Page was investigating the mathematical properties of the World Wide Web. His friend Brin became involved and they developed the page link algorithm. The domain *google.com* was registered on the 15th of September 1997. They formally incorporated their company, *Google*, on the 4th of September 1998. In 2015, Forbes estimated the pair's individual net worth: Larry Page's net worth was approximately $35.7 billion, while Sergey Brin's was approximately $35 billion.

Why is Innovation Important?

Considerable advancements within human history can be attributed to innovation. Innovation improves people's lives around the world (both in developed and developing nations) It is at the heart of entrepreneurship and success, and is vital for:

- **Survival**: *'Change or die'* is a common catch-cry. A business may be defined by its innovation, not least its very existence may be saved through innovation.
- **Competitive Advantage**: It is vital that products, services and systems are distinguishable from those of competitors. This necessitates fresh ideas and creativity.
- **Growth**: Innovation may improve and extend product-lines and services, and expand a business' market.
- **Employee Satisfaction and Motivation**: Creative and innovative organisations are more enjoyable and stimulating for workers.

Exercise 3.3 Gustav as a Model of Sustainability

This is Gustav, the invention of **Heunec**, a family-owned toy-making business located in **Germany**. Gustav is a cradle-to-cradle invention: That is, all aspects of his production use renewable resources. Every part of Gustav is also recyclable.

Question: What benefits do you think that there are from producing Gustav in this way?

[Image: HdV]

Disruptive Thinking

This term refers to innovations that help create new markets and value propositions. These innovations ultimately disrupt an existing market and value propositions over a period of years (or sometimes decades), displacing earlier technologies.

Disruptive innovation is used in business to describe innovations that improve a product or service in ways that surprise the market. They offer new value propositions the market does not expect. A typical path for disruptive innovation involves designing a product or service for a different set of consumers in a new market and later, by lowering prices in the existing market. The term can also be applied to social entrepreneurship ideals.

The Life Pod

Sir Ray Avery is a New Zealand entrepreneur and philanthropist. He worked with the Fred Hollows Foundation in establishing a low-cost intraocular lens factory in Eretria. Although, Ray found life in Eretria difficult, the completed factory has helped give sight back to millions of Africans to see again. With his latest venture, Ray is developing a robust low-cost life-pod baby incubator. Speaking about the life-pod's development, he said: **"Our disruption was absolutely simple - make something that never breaks down. That was the disruptive idea, and that's hard to do! That's why it took us nearly a decade, but now we are at that stage where we know we have done it."** (Avery & Little, 2010)

The Entrepreneur's Role in Opportunity Identification

In thinking about the identification of opportunities, we need to ask, what personal characteristics does the entrepreneur possess? What sociological factors (people in the entrepreneur's personal and business networks), and ecosystem factors (domestic or international) contribute to opportunity identification and innovation?

Trigger and Concept Definition

While many people may see an opportunity or have innovative ideas, it is the entrepreneur who actually does something about these ideas. **Trigger** events are things that cause or allow the entrepreneur to progress their idea(s).

The second step involves enacting the business concept – that is, developing an innovative way to capitalise on an identified opportunity. It could be a new product, a new service, a new operational system, or a new marketing approach. Morris, Kuratko and Covin (2011, p. 33) argue that a well conceptualised concept will provide user benefits, have some unique aspect/s, represent an entire value proposition, be feasible (implementable) and profitable. In essence, the entrepreneur must be able to articulate the *critical success factors* which will drive the venture.

The Entrepreneur's Role in Concept Definition

What personal characteristics (of the entrepreneur themselves), sociological factors (people in the entrepreneur's personal and business networks), and ecosystem factors (domestic or international) contribute to trigger and concept definition?

From Opportunity to Implementation

English entrepreneur, Dame Anita Roddick, grew up in a large Italian immigrant family with a work ethic she said "was tantamount to an unregistered form of slave labour." As a child, Anita was a natural rebel. She trained as a teacher and went on to teach English and History. However, she wanted to experience new things so gained work in the United Nations, in the Women's Rights Dept. of the International Labour Organisation, in Geneva. Anita then went on an extended working trip around the world for two years. The trip gave her a wealth of experience and exposed her to the body rituals of women all over the world. During her travels she was expelled from South Africa after visiting a coloured jazz club, violating apartheid laws. Returning to England she married Gordon Roddick. Together they purchased and managed a restaurant /hotel. But after the gruelling long hours of running a restaurant, Anita decided to open a small 'nine-to-five' shop so she could spend time with her children while Gordon was away trekking around America for a year. Of her new business, Anita said: *"It was simply about creating a livelihood – my own livelihood. It was about being mistress of my own time and space, redefining my own success as a sense of freedom."* Anita opened **The Body Shop** in Brighton, West Sussex, England on the 26th of March 1976. It was a basic shop and at first sold only fifteen product lines which she packaged into five different sizes so it looked like she had one hundred product lines. She was the first to introduce a socially and environmentally responsible business onto the High Street in England. She also began talking about fair trade long before it became popular.

Lake District, England
[Image: Hdv]

Source: Roddick (2001)

Adventurer Jamie Clarke grew up hiking and skiing in the Rocky Mountains in Calgary, Canada. In 1997 and 2010 he climbed Mount Everest. In 2002, between these climbs, Clarke opened a Calgary adventure outfitting shop. His aim was to meet the market demand for high quality gear that could, until then, only be purchased from Europe. He went on to create a successful social network platform for buying and selling equipment. In 2009, the store became a purely ecommerce web-site. LiveOutThere.com has become one of the fastest growing companies in Canada. It has been nominated for Canada Post's Innovations Awards.

Acquiring the Necessary Resources

There is a misguided view that for the entrepreneur, 'the primary resource is money'. This is rather simplistic, as success or failure is often reliant on other non-financial resources and related to factors such as successful patent applications, permits and licences, a team with the right creative skills, the business' location, assess to a customer base, and production capacities.

Successful entrepreneurs are able to bring resources together. They are adept at **resource leverage** (they excel at begging, borrowing or sharing resources) and pivoting when necessary. Using leverage, an entrepreneur can progress their venture with minimal financial resources, lower their risk and provide a greater ability to pivot if needed. Resource leverage can be considered a precursor to the **Lean Start-Up** method.

Working with What You Have

While I was living in Dublin, Ireland in 2013, Irish pop band **Keywest** gave free concerts on Grafton Street. The band used their limited resources to promote and sell their albums direct to consumers, which could be considered an element of the lean approach.

Note: Their 2015 album *'Joyland'* reflects their time and experiences performing on the streets of Dublin.

Musicians 'Keywest' in Grafton Street, Dublin[Image: HdV]

The Entrepreneur's Role in Resource Acquirement

What personal characteristics (the entrepreneur themselves), sociological factors (people in the entrepreneur's personal and business networks), and ecosystem factors (domestic or international), contribute to resource acquirement?

NOTE: There are personal characteristics needed to acquire resources. An entrepreneur may be a trader, bargainer, negotiator, networker, or borrower.

Implementing and Managing a Start-Up

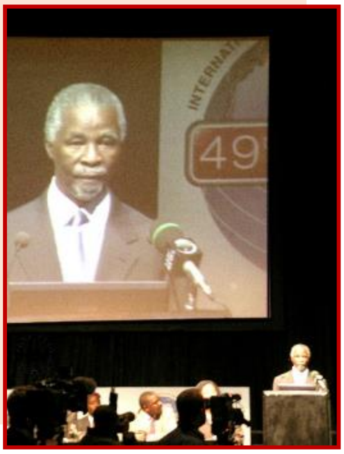
This refers to the commercialisation step when ideas are put into action and resources are deployed. No matter how much planning has been involved in this stage, it is typically hectic and fraught with uncertainty and ambiguity. Everything about the venture is new and 'happening' for the first time. In short, the entrepreneur is making decisions without any precedence to guide them, except perhaps their own life experiences or guidance from mentors. A great deal of learning takes place during this step.

The implementation of a new and creative venture will always prompt unexpected problems and resistance to change. The entrepreneur must be careful not spend all their time *fire-fighting* and lose sight of the critical success factors needed for the venture to succeed or any changes in the marketplace.

Hard Work – Very Hard Work

Dora Ndaba was born in Johannesburg, South Africa, and raised in Soweto. Despite numerous life setbacks which included her husband's death in 1976 and the Soweto riots, Dora created several businesses including a Taxi fleet, a building company and a paving company. She also championed Black African rights, co-led the Women's Rights Peace Party and was the Vice-President of the National Association of Women Business Owners. When asked for the recipe for her success, her reply was short and to the point: ***"Hard work – very hard work"*** (Bagshawe, 1995).

In 2005, Dora was awarded the civilian national honour, 'The Order of the Baobab in silver' for her distinguished contribution to the development of formal and informal business; and for black and women economic empowerment in South Africa.



Former President: Thabo Mbeki, Johannesburg
[Image: HdV]

The Entrepreneur's Role in Implementation

What personal characteristics (the entrepreneur themselves), sociological factors (people in the entrepreneurs personal and business networks), and ecosystem factors (domestic or international) contribute to implantation?
NOTE: There are personal characteristic needed to implement and manage a business start-up. These characteristics include team building, leadership, operational capability, delegative capacity, flexibility, and hard work!

Managing Growth

Growth brings new changes from the start-up phase. A venture's growth introduces a number of new challenges for the entrepreneur: they must be able to apply different skills and capabilities. Firstly, some entrepreneurs lack the ability to change from an entrepreneurial style to more of a managerial one. Secondly, some rapid growth entrepreneurial ventures can grow beyond their capacity to effectively meet customer expectations or maintain a positive cash-flow. Thirdly, some entrepreneurs want to balance their lifestyles and business activities. In New Zealand, we often refer to the '**3Bs'** – symbolised by the **B**oat (yacht or jet-boat), **B**ach (holiday home) and **B**MW (luxury car) – as the metaphor for an ultimate lifestyle. The amount of time the entrepreneur must contribute to a business' growth may not allow for such a balance.

In fact, halting growth or downsizing is ***not always a bad thing***!

Exercise 3.4: Restructuring


The company applied technology to component manufacturing [Image: HdV]

During the 1990s, New Zealand furniture manufacturer deVries Design experienced rapid growth. The firm wasowned and operated by two brothers. Their business model was based on technologically advanced manu-facturing practices, national market expansion, and funding growth through retained profits and debt financing. The rapid growth and technological expenditure, coupled with New Zealand's economic restructuring of the 1990s meant that the brothers began to experience staffing and quality control problems, negative cash-flow and marginal profitability as bank debt, operational costs and their creditor's ledger all increased. In 1998, the brothers embarked on a new direction. They downsized the firm and focused on supplying niche, high value-added components and designer markets. This change led to a three-fold improvement in the company's profit-to-turnover ratio. It enabled the brothers to become debt free and retain full family ownership.

Question: Suggest some possible reasons why the brothers did not access equity funding to finance growth, but instead downsized the business.

The entrepreneur's Personal Characteristics in Managing Growth

What personal characteristics (the entrepreneur themselves), sociological factors (people in the entrepreneurs personal and business networks) and ecosystem factors (domestic or international) contribute to this?

NOTE: There are 'other' personal characteristics needed to grow a business including leadership, operational, and delegative capacities.

Harvesting the Venture: Succession or Exit

Harvesting refers to how the entrepreneur(s) will make a return on their investment of money, time and energy in the venture. This return will be over the life of, and to the eventual end of, the entrepreneur(s') involvement with the venture. Inevitably, the entrepreneur will cease to be engaged with the venture – either due to the sale of the business, its acquisition by another company, or being taken over by a successor.

Harvest Decisions

What personal endgame, sociological factors (people in the entrepreneur's personal and business networks), ecosystem factors (domestic or international), and venture characteristics contribute to harvest decisions?

Exercise 3.5: Holliday Group ltd

In 1990, Phil Holliday started HGL, a communication electronics manufacturing business in Christchurch, New Zealand. Phil admitted that he was in *'the right place at the right time'* as the wireless mobility space was hot. Over the ensuing ten years, Phil grew a successful business and HGL became the largest Palm application provider in Australasia. However, the business only had a localised footprint and he could not afford to open an extensive network overseas using the existing business model (until that point, growth had been funded using retained profits).

In 2000, after receiving informal offers to buy HGL, Phil decided to put HGL on the market. While the informal offers quickly disappeared, a promising bidder emerged: itouch Plc (UK). With his professional negotiation team, Phil flew to South Africa to meet the itouch negotiation team. Negotiations were protracted with a toing and froing of offers. An initial memorandum of understanding was finally signed, after which a detailed (54 page) sale and purchase agreement was composed. This was followed by a lengthy due diligence process in Phil's HGL factory in Christchurch. Phil referred to this three-month period as 'death by paperwork.' The paperwork was immense, and the deal could have collapsed at any time – like a house of cards! He had little time to run his business, and needed to keep the whole process confidential!

Finally, the deal was completed with the expectation that Phil would continue to manage the new entity for three years. In 2007, itouch Plc was purchased by Buongiorno.

Question: What does this example tell us about the sales process?

House of Cards
[Image: HdV]

The Entrepreneurial Journey Canvas

The entrepreneurial journey canvas (Figure 3.3) displays the entrepreneur's life course, the entrepreneurial venture(s)' life course, and the ecosystem in which both operate. The figure provides a visual depiction of the entrepreneurial journey from innovation through to the entrepreneur's endgame.

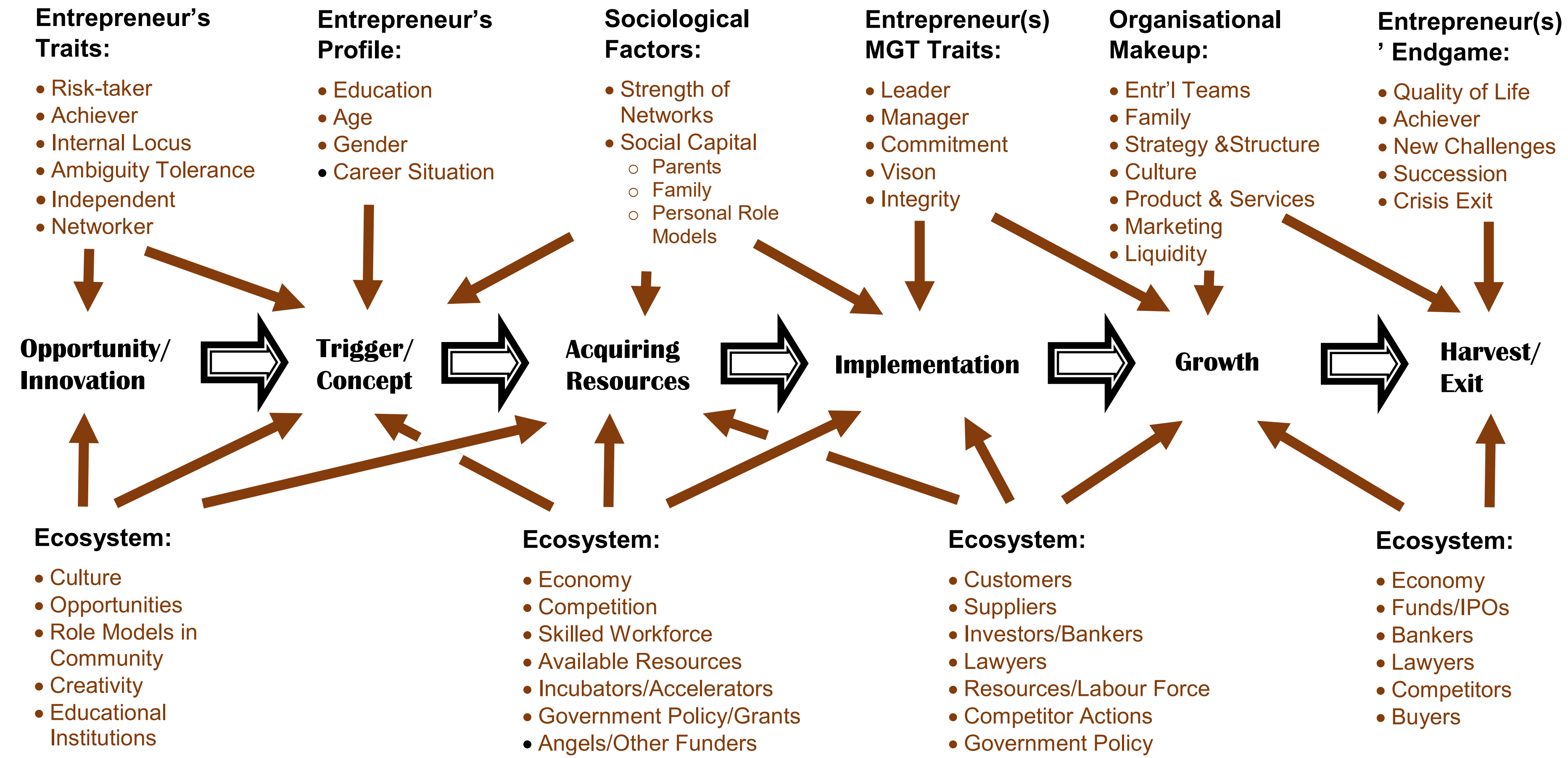
Application

The canvas is a means by which the entrepreneurial journey of a particular entrepreneur can be portrayed as a single-page visual presentation. The canvas template consists of the key micro and macro factors in the journey (black). Possible factors influencing the specific entrepreneur's journey (brown) are guides which can be substituted by the actual life course and ecosystem factors of the actual entrepreneur/venture(s) under study.

Figure 3.2

The Entrepreneurial Journey Canvas

<u>MICRO (INTERNAL) ENVIRONMENT:</u> Personal traits, skills and experiences; social and business connections; the venture itself



<u>MACRO (EXTERNAL) ENVIRONMENT:</u> Physical, political, social, economic, and business environments; funders, customers, era/timing

Exercise 3.6 Dame Anita Roddick & The Body Shop

Dame Anita Roddick is the founder of 'The Body Shop', a global retail chain that carries a wide range of products for the body, face, hair and home. The Body Shop claims its products are 'inspired by nature.' They feature ingredients such as sesame seed oil sourced through the Community Fair Trade Programme.

1942: Anita was born to Italian immigrant parents in the English seaside town of Littlehampton. Her parents ran a café.

1940s Speaking about the 1940s Anita said, "I was brought up in a large Italian immigrant family with a work ethic that was tantamount to an unregistered form of slave labour."
It was during this time Anita said she learnt a fundamental lesson about business – that it is possible to bring your heart to the workplace
As a child, Anita was a natural rebel.

1952: Anita developed a strong sense of moral outrage after reading a book about the Holocaust at the age of ten.

1952: Her father died and the family all had to work even harder at running the café. Her mother taught Anita the importance of personalities in business. 'Be special,' her mother would say. 'Be anything but mediocre.'

1950s Anita's upbringing taught her to challenge everything she was told at school, at church and in every other institution.

1960s: Anita trained as a teacher and went on to teach English and History – she tried to create a special atmosphere in her lessons.
She got 'itchy feet,' so she left teaching to work for the United Nations in Geneva. She was employed by Women's Rights Dept. in the International Labour Organization (ILO). She reveals that she simply showed up on the doorstep and asked to see someone in the personnel department and was subsequently given a job.
Anita gained a scholarship to study in a kibbutz in Israel. There, she says, the stories of political leaders like Castro and Che Guevera "were our vision," and "it was no wonder when I set up my own little enterprise, I was going to do things differently." She returned to England after being expelled from the kibbutz due to a prank.
Anita then went on a two-year working trip around the world. The trip gave her a wealth of experience and exposure to the body rituals of women from all around the world. During her world travels, she was expelled from South Africa for going to a coloured jazz club, a violation of apartheid laws.

1970: When she arrived back in the UK, she met her future husband Gordon Roddick. They married and had two daughters in quick succession.

1971: The Roddick's became owner/managers of a restaurant and hotel in their home town of Littlehampton. They were nearly bankrupt twice, but as a result of these experiences, learned that when you make mistakes, you must face up to them and take immediate steps to change course.

1974: They sold the business and Gordon went on and fulfilled his long-term ambition to undertake a horseback expedition from Buenos Aires to New York - leaving Anita behind to support herself and the children.
After the gruelling long hours of running a restaurant, Anita decided to open a small 'nine-to-five' shop so she could spend time with her children. This was particularly important as Gordon was away on his American trek. Anita said: "It was simply about creating a livelihood – my own livelihood. It was about being mistress of my own time and space, redefining my own success as a sense of freedom."

1975: Anita's training as a history teaching gave her the necessary research skills to investigate skincare.
She wanted to open a store that sold natural cosmetics in different sizes and in cheap, refillable containers. Her mother's frugality inspired Roddick to consider ideas like refillable containers.
Her plan was to open a basic skin care shop. At first, it would sell only 15 lines which she was able to source in bulk. She packaged these in five different sizes so that it looked like she had about 100 lines. She said "Every element of our success was really down to the fact that I had no money."

1976: Anita opened The Body Shop in Brighton, West Sussex in England on the 26th of March.

The timing could not have been better as the public were starting to look to 'greener' companies and products. She became the first to introduce socially and environmentally responsible business onto the High Street and began talking about fair trade long before it became a buzz word.

1978: By the time Anita's husband returned from his trek, the shop was thriving. She had opened a second store and customers were asking if they could start their own Body Shop branches.

To expand the business Anita set up a system of franchises.

1979: The Body Shop developed a reputation for supporting social and environmental causes.

Anita said: "Most entrepreneurs, good entrepreneurs, have been immigrants. We are outsiders. We don't dance to the same drum beat."

1980s: The first stores were opened in Canada, Australia, Asia and then the USA. The Body Shop also became a public company with some corporate shops and some franchised shops.

1990s: Speaking of her success, Anita stated that to be a natural entrepreneur you need a vision, a touch of craziness, to stand out, be streetwise, optimistic, have lots of ideas, be creative and be a great story teller.

Anita established the Body Shop Foundation, a charity which funds human rights and environmental protection groups.

The Body Shop created four new business units in the UK, Europe, the Americas and Asia, shifting its operational and management structure out to the regions.

Anita lamented taking the company public because of the loss of control over the social values of the Body Shop for what she called, "The one very unimaginative bottom line called profit and loss!"

Anita has a fundamental belief that an organisation should operate as a community, "When you advertise for employees, surprise, surprise: people come instead." People with aspirations and value who will work within a community of the workplace, working for a common good.

2000:- The Body Shop launched its first customer reward programme in the US.

2001: Anita penned a book, 'Take It Personally' which encouraged equality and an end to the exploitation of workers and children in underdeveloped countries.

2003: Anita was appointed as the Dame Commander of the Order of the British Empire by Queen Elizabeth II.

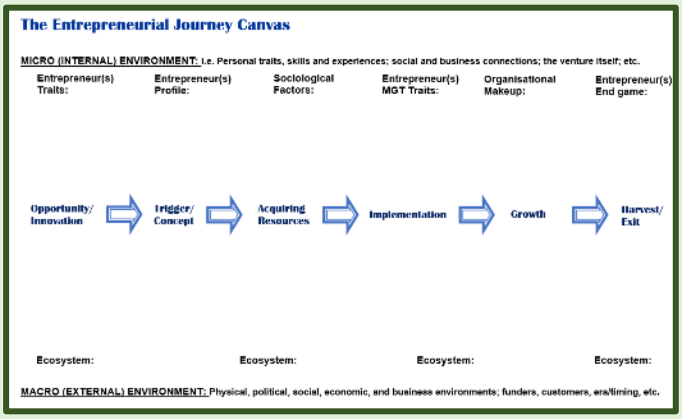
2005: The Body Shop became the first global retailer to join the Board of the Roundtable for Sustainable Palm Oil, working to protect tropical rainforests and improve the human rights of workers and indigenous people.

The total number of Body Shop stores around the globe surpasses 2,000.

2006: The Body Shop becomes part of the L'Oréal Group and de-lists from the London Stock Exchange.

2007: Dame Anita Roddick passed away. Adapted from Roddick (2001)

Activity: Apply the **Entrepreneurial Journey Canvas** to analyse the Dame Anita Roddick case study by completing a diagram that provides a detailed outline of the entrepreneurial stages she went through.



Chapter Summary

This chapter has introduced the fourth of the 4Cs of entrepreneurship: creation (the process). It has tied the 4Cs into a canvas system model that depicts the entrepreneurial journey. Key ‘take homes’ are:

- Understanding and planning a venture **creation (process)** can be approached using a variety of approaches from the classical business plan perspective, a holistic effectuation approach, or via a business canvas model.
- The entrepreneurial journey model (which is depicted in canvas form) consists of: opportunity identification and innovation, trigger and concept definition, acquiring resources, the implementation and management of the venture, managing growth, and the end-game (succession or exit).
- The entrepreneurial journey model considers the entrepreneur’s characteristics, the context in which they operate, the capacity building capability, and the creation process the entrepreneur went through. In essence, it creates a complete story of the entrepreneur’s or the venture’s journey.

Chapter 4: The International Entrepreneur

The problem is 'you don't know what you don't know'!

If an entrepreneur wants to become a contributor in the global economy, one that has become more intertwined as countries experience greater interdependency, they must have an international vision. An entrepreneur needs both a high level of international knowledge and skills and a talented team around them. Such capability develops over time. Depending on their level of international experience, the entrepreneur has various options for entering the global market; from simply indirect exporting through to very complex wholly owned international ventures. The entrepreneur's global aspirations will ultimately succeed or fail based on 1) how effectively they recognise and understand the target market, 2) how well they identify and leverage their core competencies and those of any venture partners, 3) and how successfully they navigate the fluctuating terrain that is the international marketplace.

The Nature of International Entrepreneurship

Simply stated, international entrepreneurship is the process in which an entrepreneur conducts business activities across national borders. The need to have an international perspective has become increasingly important to firms of all sizes, large or small. This is of great consequence today, when firms are operating in a hypercompetitive intertwined global economy. There can be little doubt that today's successful entrepreneur must be able to navigate the world of international business. They must be someone who fully understands how international business differs from their domestic business activities, and is therefore able to respond appropriately.

Source: Adapted from Hisrich, Peters, and Shepherd (2008, p. 89).

The International Environment

[Image: HdV]

As intimated above, the international entrepreneur must be able to think 'globally'. Due to global trends such as the freeing of trade policies, reduced transportation costs and the World Wide Web consumers can now purchase products and services from around the world. These products and services are available from diverse nations and different cultures. Simple products such as an apple, a pen, or a washing line peg or complex services such as insurance are all globally produced and consumed. Yet, the international entrepreneur must have alternative strategies for designing, producing and distributing products and services for different countries and markets.

Political and natural events around the world also impact the international entrepreneur. In the last five years, the world has experienced various political events, including the UK's decision to leave the European Economic Union (EU), a decision commonly refered to as Brexit, the nationalist verver of Trump's America, and the dramatic impact of Covid-19 on national economies, infrastructures and citizens.

It is also important to understand that international business is NOT the sole domain of the multi-nationals. Entrepreneurs will continue to take their small business ventures to the international marketplace and succeed!

Entrepreneurs must be aware of complexities within the international environment. These include legal and political differences and changes, economic and structural differences, the fluidity of international trade agreements, currency fluctuations, cultural differences, and natural events. In business, the entrepreneur can easily be blindsided by the unexpected or unknown. As the saying goes, *'you don't know what you don't know!'*

Exercise 4.1: Competencies

Prague, Czech Republic .
[Image: HdV]

The term **competencies** refers to an entrepreneur's integrated skills, knowledge, and capabilities that culminate in actions that translate into successfully achieving one's objectives.

Kruger and Dunning (1999, p. 1121) state that: *"People tend to hold overly favourable views of their abilities in many social and intellectual domains. The authors suggest that this overestimation occurs, in part, because people who are unskilled in these domains suffer a dual burden: Not only do these people reach erroneous conclusions and make unfortunate choices, but their incompetence robs them of the metacognitive ability to realize it."*

Question: What are the authors suggesting about competences? How could this translate to international entrepreneurship?

Although it is impossible to go into business with perfect knowledge and information, it is critical to build a strong understanding of the international context: its opportunities, risks, complexities and vagaries.

Domestic Versus International Entrepreneurship

This section discusses some of the opportunities, risks, complexities and vagaries that the entrepreneur must deal with in the international marketplace. As a global operator, the entrepreneur must consider a country's economic structure and development, the balance of payments, the exchange rate, the type of economic system, the political and legal systems, culture, technology, local competition and any subsidies offered (Hisrich, Peters, & Shepherd, 2008).

Economic Structure and Development

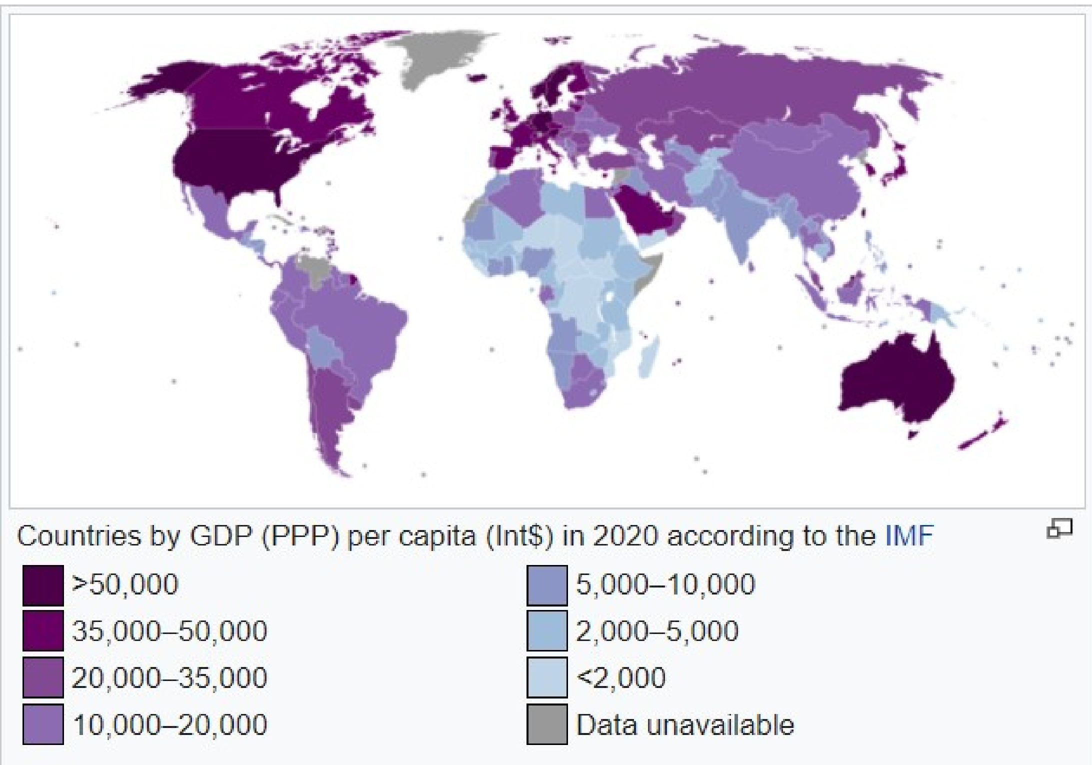
Domestic Structure and Development: The single country strategy (the venture operates in a single country/market) generally contends with a specific economic system and currency. However, there may be a need to adjust the business plan according to regional differences in demographics and economic development.

International Structure and Development: A multi-country strategy must deal with different levels of economic development and purchasing power (Figure 4.1). It must also consider diverse currencies, regulations, banking systems, and distribution systems. Raising capital can also be challenging and complex in different countries. How can an international entrepreneur translate these differences into a coherent international business plan and method of doing business?

For example: An entrepreneur who wants to conduct business in more than one country needs to understand the divergent, and often significant lack of infrastructure in different countries:

- Roads, electricity, and communication systems
- Banking or well-developed legal systems
- Education systems
- Established business ethics or norms

Figure 4.1
Purchasing Power Parity (2020)



Source: https://en.wikipedia.org/wiki/List_of_countries_by_GDP_(PPP)_per_capita]

Balance of Payments and the Exchange Rate

Domestic Balance of Payments and Exchange Rates: While the local currency is constant, their balance of payment (the difference between what the country purchases and what it exports) can affect the value of the currency in comparison to a country's trading partners (the exchange rate). This may influence the prices of goods and services the entrepreneur imports or purchases from local agents.

International Balance of Payments and Exchange Rates: The balance of payments and level of debt can affect the valuation of all countries' currencies. Therefore, the conversion rate between different currencies (the price in which goods and services are quoted) constantly changes.

- The exchange rate and conversion rate can affect business transactions. The more countries an entrepreneur operates in and the larger the trading activities become, the more dynamic fluctuations are and the more important forward (risk) planning becomes.
- Therefore, because exchange rates are constantly changing and because there can be significant 'spikes' in the exchange rate over time, entrepreneurs can choose either **spot exchange rates** or **forward exchange rates**. The spot rate is the rate at which foreign exchange dealers convert one currency into another currency on a particular day/the day of the transaction. The fact that the spot rate constantly changes can create problems for an entrepreneur. For example, an entrepreneur may agree to purchase a machine which will be delivered and paid for in six months, by which time the spot rate may have changed significantly. To avoid this risk, an entrepreneur might want to engage in forward exchange. This is where the entrepreneur and supplier (usually their bank) will agree on an exchange rate by which the transaction will be executed on delivery of the machine in six months' time.

Exchange Rates

The shrinking value of the USD, post the 2007 global financial crisis (GFC), improved the export competitiveness of US firms. In contrast, while the strengthening NZD made imported products cheaper, it damaged exporter returns (and subsequent profits). In 2018, the USD again showed significant signs of strengthening against the NZD.

Entrepreneurs thus need to consider how exchange rates will affect their ability to trade profitably between countries with regarding to buying and selling internationally. In 2020, the Covid-19 pandemic changed the global financial direction: countries entered into the financial unknown!

Source: https://kagels-trading.com/nzd-usd-forecast-longterm-prediction/

Types of Economic Systems

A country's economic system is also shaped by its political environment and governing ideology. While there is relative general consistency in ***domestic*** markets, there are significant differences in the global marketplace. The most commonly understood ***international*** economic systems are:

- ***Market Based Economies***: These are based on the capitalist system principles of private ownership and the free market. Although there is no perfect market economy it may be argued that the US is the closest example.
- ***Command Economies***: These can be described as fully centrally controlled state economies where all production levels and prices are set by the government. This system is consistent with collectivism ideology and is applied in most communist countries (and to some degree, in socialist and theocratic systems). Examples include Cuba and North Korea. Some command economies have begun to embrace selected capitalist principles. For example, China has moved to an economic system that blends socialism with elements of capitalism. Its leaders maintain a communist economic system in which rapid growth has occurred through adopting certain capitalist practices.
- ***Mixed Economies***: These are a combination of market and command economies. Certain sectors of the economy are left to private ownership and market forces, while other sectors have significant state ownership and government planning and control. This system is evident in many modern democracies like France, and India.
- ***Traditional Economies***: These economies generally rely on customs and rituals. Examples include, Amazonian tribes or any subsistence economies such as those found in Africa.
- ***Transition Economies***: These economies are ones that are moving from one system to another like former Eastern bloc countries which are integrating into the EU. While transition economies offer entrepreneurs new opportunities, they are also fraught with challenges which include a lack of understanding of Western systems regarding planning, marketing, profits, and accounting systems.

Source: Adapted from Hisrich, Peters, & Shepherd (2008, pp. 90 - 99)

Ravensdown [New Zealand] and BPC/Belaruskali [Belarus]

Ravensdown manufactures and supplies fertilisers to the agricultural sector in New Zealand. The company also provides farmers and growers with planning and advisory services; soil, plant, feed, and water testing services. They also offer aerial and ground spreading services; and environmental services, such as nutrient budgeting, farm environment planning, water quality monitoring and laboratory testing, resource consent applications, and GIS mapping, as well as wastewater and effluent testing and application modelling.

Ravensdown imports raw materials (which they add value to) from 50 suppliers from 22 different countries. **CEO Greg Campbell** and **Procurement Manager Chad Gillespie** discussed doing business overseas. To understand the challenges, we focused on the specific case of Belarus:

Capital:	Minsk
Dominant Ethnicity:	Belarusian (84%)
Population:	9.5 million
Currency:	Belarusian Ruble
Area:	207,595 km² (similar size to Great Britain)
Official Languages:	Belarusian and Russian (72% of people speak Russian)

Before discussing Belarus, Greg explained that his current role and his previous, experience at British Petroleum has convinced him that the relationship between both parties is everything: *"The contract describes the terms, but you have to look beyond that, particularly if you have an issue. A lot depends on the way business is done in that country as cultures are immensely different, so relationships are key."*

Christchurch Head Office
[Image: HdV]

In short, Greg believes that everything is relationship driven and that these are multi-layered: *"I'm involved with a relationship with their equivalents. Some organisations are much more hierarchical than Kiwis [New Zealanders]. So, if you are in front of the Koreans only one person talks. Then, when that CEO or GM leaves they will open up and everyone talks. As a Kiwi, I'm completely the opposite. I encourage people to step out, be heard, be seen. So, they [Korean business partners] sometimes find that unusual when that occurs in our culture."*

Greg believes in developing the relationship first: *"What I've found, everywhere you go, the quickest way of thawing the relationship is to talk about families. Doesn't matter where you go in the world, talk about their children. It's astounding the whole thing just melts away and suddenly you have this common ground."* Secondly, we should not underestimate the capabilities of international business partners like Ravensdown's Belarus potash supplier **BPC/Belaruskali**. These companies employ "incredibly intelligent, articulated, well-mannered, well-presented, individuals."

Greg is very conscious of his personal constrains in overseas dealings as he only speaks one language, English. In contrast, many of his counterparts in Belarus speak seven languages fluently: *"They speak English better than we do."* He continues, *"What I find is the people we deal with are well travelled and they understand our culture as much as we try to understand theirs."*

Ravensdown deals with the Belarusians at BPC/Belaruskali through a sales office in Singapore (which manages BPCs' South East Asian business). For their day-to-day needs, Greg's team deal with Singapore via emails and telephone. They meet face-to-face a couple of times a year at the International Fertiliser Association's conference, and on occasions, in Singapore, Belarus or New Zealand. To maintain a good relationship, Greg explained that, *"when they visit us we spend a lot of time with them and we are quite deliberate in that we want to showcase New Zealand. I was in a fortunate situation a few years ago when I presented to the BPC board and management. First and foremost, you sell New Zealand, then yourself and then the company."* When in Belarus, Greg says, BPC looks after him incredibly well and that they are concerned about their security. Chad added that accommodation can vary from more quaint traditional accommodation in smaller mining towns to new hotels in the modern city of Minx, which was destroyed in WWII, and over time has been rebuilt. Greg added that the museum has one of the most amazing war memorials as Belarusians have been in the middle of many significant battles: *"And that's still very raw. So, lots of memorials to that, they remember it well and they very readily want to show you that. So, it's an important part of relationship building to find the time to do that."*

Minsk, Belarus
[Image: Adobe Stock]

All transactions are completed in US currency. Greg warns that in international business it is very important to understand who your counterparty is and that you are dealing with a legitimate party, "*because you could be sending money and there is always a risk it may disappear."* Chad confirms that they have very good systems in place with BPC. Again, it comes back to a good relationship.

In discussing the nuances of partnering in a Command Economy such as Belarus Greg says, *"When you go there you feel like it's a step back in time. Yes, they use a lot of technology but there is still a lot of paper based. So, there's lots of stamping and documentation, and it just seems to slow it down."* Chad added that, "It is border crossings where things are very different to what we are used to. There might not be a long line of cars but they will take their time, walk around with their weapons and drip feed you through. It's just part of the way."

Greg's final reflection of Belarus was that it is very modern in some ways and in others, rather ancient. Chad offered the example of being in a restaurant and paperwork needing to be stamped as they have to present that back to the office to process it before food can be prepared.

Political and Legal Systems

Domestic Political/Legal Systems: This refers to the rules and laws that that encapsulate the political ideology, regulate behaviours, and address grievances within a particular country. Entrepreneurs must understand and abide by all the legal requirements related to operating a venture and meeting their personal responsibilities in that country. An example of the multiplicity of political/legal systems are the federal systems in the US and Australia which translate into divergent and sometimes contradictory systems in differing states.

Exercise 4.2: East and West Germany

Following World War II, East and West Berlin were politically separate entities and governed by different ideologies: the West democratic and the East communist. For a time, products and services flowed freely between the two sectors. However, in response to an exodus of its residents to the West, on the 13th of August 1961, the East erected a barrier - overnight! This wall immediately removed citizen's ability to move and trade freely between the Eastern and Western sectors of Germany. The wall came to symbolise the 'cold war' and divided Eastern and Western Europe (1947-1991).

Berlin, Germany [Image: HdV]

Question: What implications would such a dramatic change have had on German businesses operating in East and West Berlin in the 1960s? What effect would this have had on international business operations in East and West Berlin in the 1960s?

International Political/Legal Systems: The international marketplace's political/legal systems create vastly different opportunities and challenges. As with domestic markets, there are various rules and laws that regulate behaviours and can be used to address grievances within a specific country. These outline an entrepreneur's rights and obligations as they engage in business activities across countries. There are far too many variances in the laws in countries around the world, but examples of areas of significant variance include:

- **Property Rights**: Legal redress relating to any violation of private of public action.
- **Contract Law**: Types of governance such as common law, civil law, and Islamic law.
- **Environmental Standards**: Examples include car emissions and heating systems.
- **Price Fluctuations and Controls**: The price of oil, for example, can be related to political issues or purely economic issues.
- **Ethics and Regulations**: Examples include health and safety regulations (or the lack of – as in sweat shops), and the regulation of corrupt practices.

Each element of an entrepreneur's international strategy can potentially be affected by complexities within the political/legal environment. Factors may include product decisions, marketing, tax regulations and the organisation's form. Furthermore, political/legal environments change over time and on occasion, overnight!

International Terrorism: The nature and frequency of organised and random (lone-wolf) terrorist attacks have increased in recent years. These have exposed societies' vulnerability. They also threaten the smooth running of international business activities and can restrict or delay (and in extreme cases derail), an entrepreneur's international business movements.

Cyberterrorism is another issue that the international entrepreneur must be aware of. While the internet has revolutionised global informational, product and transactional exchanges, and given rise to new industries, the threat of cyberterrorism is ever-present. Cyberattacks target computer systems. They are generally motivated by money, or political and ideological beliefs. These cyberattacks can be perpetrated by competitors, discontented staff, hackers and career criminals.

In a rather macabre way, these attacks have also brought about new opportunities for entrepreneurs who offer products and services in the security and disaster response industries. Nevertheless, these new opportunities are by far outweighed by the social and economic costs of terrorism. While terrorism is not exclusive to the international entrepreneur (domestic entrepreneurs must also contend with such attacks), it is fair to say that the nature of the problem is even more complex and indiscriminate in the international business realm.

WannaCry Ransomware Victims Told Not to Pay

The world-wide **WannaCry cyberattack** began in May 2017. The ransomware target-ed computers running the Microsoft Windows' operating system by encrypting data and demanding ransom payments in Bitcoin cryptocurrency. After examining the threat, the San Francisco-based Institute for Critical Infrastructure Technology said the ransomware did not contain decryption mechanisms or a means to identify who had paid the ransom. They advised victims not " not [to] pay the ransom."

Indiscriminate

In May 2021, **cybercriminals** launched an attack on the IT systems of hospitals located in the Waikato region of New Zealand. This threw them into turmoil: computers and phone lines crashed, and all hospital IT services in the Waikato, Thames, Tokoroa, Te Kūiti and Taumarunui were blocked.

While the financial and human cost of the ransomware attack on Waikato hospitals is still to be determined, the absence of IT systems meant that cancer patients had to be transferred around the country and some surgeries had to be performed in private hospitals. The hospitals had to employ hundreds of additional IT experts in an attempt to rebuild all their systems. While they managed to reinstate some of the hospitals' IT services, one month on these hospitals still had very limited internet connectivity.

Cultural Environment

An entrepreneur's international business success also depends on their level of cultural awareness, in both the ***domestic*** and ***international*** domains. Hence, it is important for entrepreneurs to have cross-cultural literacy.

Cultural literacy refers to an individual's capability to understand and participate assuredly within a given culture (Hisrich, 1983). In short, an entrepreneur must display competencies with regard to a country's religions, social structures, language/s, manners and customs, values, education, and economic philosophy.

Domestic Cultural Competency: This term refers to an entrepreneur's need to understand and operate a venture within a specific country's culture: For example, they must understand the bi-cultural and multi-cultural implications of their participation in a particular market.

Bi-culturalism in New Zealand

In New Zealand, the term **bicultural** refers to Māori and non-Māori. This relationship is governed by The Treaty of Waitangi (1840) which is a partnership between Māori and the British Crown. An important part of biculturalism is the acknowledgement that Māori are tangata whenua **(the people of the land)** and have a special relationship with the land. The Treaty plays an important role in New Zealand laws. Alongside English and sign language, Te Reo Māori – the Māori language - is one of New Zealand's official languages.

Kepler track, NZ
[Image: HdV]

International Cultural Competency: This term refers to an individual/entrepreneur's understanding of how cultural differences across and within countries can affect the way they will engage in business (Hill, 2003). Factors to consider include:

- How culture may impact on the cost of doing business.
- Culture is not static but evolves over time. However, there is much debate about how quickly it changes. If we use the Hill (2003) example of Great Britain, there is little doubt that over the past 30 years the class distinctions have lessened.

We consider cultural factors in more detail later in this chapter.

The Cost of Class Divisions

Hill (2003, p. 89) argues that the culturally based class divisions that were evident in Great Britain in the 1960s, 70s and 80s, created tensions between management and labour leading to a lack of cooperation and regular industrial disputes. This disruptive environment, which was often paralysed by mistrust, raised the costs of doing business in Great Britain compared to countries such as Germany, Norway and Japan.

London, UK
[Image: HdV]

Technological Environment

Variations in, and the unavailability of technology, are surprisingly common issues for entrepreneurs:

- The existence of 'industry standards' is not the case in many countries.
- This can make it difficult to achieve a consistent level of quality and service.

Entrepreneurs must produce and/or deliver products and services that 'fit' a country's technological capability.

- Different 'roading infrastructure' requires different transportation systems/vehicles.
- Telecommunications and computer capability can influence business practices.
- Public utilities such as power, water and sewerage are not always guaranteed.

Ray Avery in Africa

Conditions were very hard when English-born New Zealand entrepreneur Ray Avery agreed to supervise the construction of an **Eritrean** (Africa) state-of-the-art plant for the manufacture of intraocular lenses to the highest international standards. War broke out in the middle of construction, Ray had no materials or skill base, and even nails were in short supply. In response to this experience, Ray wrote *"Be prepared for the bus to break down, the showers not to have curtains so the toilet roll gets soaked if you're lucky enough to have one, and for the fact that you can't make things happen when you want them to happen. Also take wet wipes everywhere."* (Avery & Little, 2010, p. 159)

Pilanesburg, South Africa [Image: HdV]

Local Foreign Competition

International entrepreneurs need to be aware of the strength of local competitors who are already established in the market. These can be formidable adversaries as they are local identities and may already have established products or services.

Hostile Markets

Steven Tindall, founder of New Zealand's most successful discount retailer, The Warehouse, has successfully applied the discount retailer formula in New Zealand since 1982. However, when Steven entered the Australian market in 2003, with 126 stores, the established local competitors were extremely aggressive; they ruthlessly set out to eliminate the unwanted new competitor and succeeded in their mission. In 2005, Tindall announced The Warehouse was withdrawing from the Australian market.

Subsidies Offered to Foreign Firms

Some countries offer subsidies to attract entrepreneurs to further develop the country or a particular industry. For example, developing nations in African have offered entrepreneurs 'special concessions' to establish businesses in their countries.

The Hobbit Trilogy

In 2010 the New Zealand Government offered financial incentives to film director and entrepreneur **Peter Jackson** (Lord of the Rings, The Hobbit and King Kong) and his American producers 'Warner Brothers' to retain the production of 'The Hobbit' trilogy in New Zealand. It was believed that doing so would bring in revenue in the form of increased tourist numbers, work for New Zealanders such as actors/make-up artists/costume designers, and auxiliary market such as catering and transport. The incentives were in the form of tax breaks and reportedly cost the New Zealand taxpayer $67 million.

Gollum: Weta workshops
[Image: HdV]

Some countries prefer to give subsidies to local producers to protect against the impact of foreign products that may be better or cheaper. For example, Irish farmers will receive an estimated €10 billion from the European Union. Subsidies help protect the local industry or local interests.

Source: Themes for this section adapted from Hisrich, Peters, & Shepherd, (2008, pp. 90 - 99); and Kotabe et al. (2011).

Exercise 4.3: Coco Palms [Kaua'i Hawai'i]

Whilst on vacation in Hawaii, my wife Sue and I were on a movie tour of Kaua̲ʻi. We stopped at an abandoned resort. My wife was bemused for she could see me thinking “this could be a great teaching case study!” Back home, and after some further research, I discovered more about the history of the resort.

Derelict Coco Palms Resort, Kaua'i, Hawai'i

[Image: HdV]

Coco Palms Resort was a resort hotel in Wailuā, Kaua̲ʻi, Hawai̲ʻi. The Coco Palms resides in the midst of a coconut grove that was planted in 1896. In the mid-1970s, Lyle and Grace Guslander’s expanded the resort to 416 rooms.

The Coco Palms Resort achieved very positive exposure and fame in the 1961 Hollywood movie *Blue Hawaii* which features Elvis Presley. The last 20 minutes of the movie were predominantly filmed on or near the resort’s grounds. The movie’s wedding ceremony scene features Elvis singing the "The Hawaiian Wedding Song" to Joan Blackman as they ride their flower bedecked double hulled canoe through the lagoon to the Wedding Chapel. This one scene is credited with creating high demand for weddings at the Coco Palms Resort in the ensuing years. Prior to its closure in 1992, the Resort had hosted over 500 wedding ceremonies annually.

The Wailuā area, in which Coco Palms is located, is culturally, spiritually and historically significant to the Hawaiian people. The property is significant for many locals on Kauaʻi because it is very close to three of the most important historical heiau (temples or sacred sites) on Kauaʻi. In fact, close to Coco Palms is the beginning point of the legendary walk of the aliʻi spirits (the hereditary line of rulers). They are believed to walk up the mountainside and around the island, on a pathway known as the ‘King's Trail’. Furthermore, the ‘Royal Bell Stone,’ which is a significant ‘blessing place’ for over 1,000 years of Kauaʻi rule, is less than one mile from the corner of the property. There are also important ancient burial sites scattered around the area, including some on the grounds of the resort.

In 1992, Hurricane Iniki struck Kauaʻi, severely damaging the hotel with its 145 mile per hour winds. The Coco Palms Resort was the oldest hotel on the island and had been built on holy Hawaiian ground. This caused delays in repairs. Unfortunately, many of the insurance companies that covered the Coco Palms filed for bankruptcy because of the extensive damage caused by Hurricane Iniki. There were many cultural activists who also fought against repairing the resort. Developers were also concerned about guests needing to cross the busy main road to get to the restaurants and the beach. As a result of these issues, redevelopment of the site has been stalled for over 20 years. This delay has meant that several new owners have come and gone over this period.

Over time, much of the hotel has been damaged by weather and neglect, as well as being vandalised. Many of the hotel's unique fixtures have been stolen. In February 2013, four of the resort's doors were stolen. These were eight-foot doors which had been hand-carved from Koa wood. The robbers had to break the walls of the hotel to take the 200 pound doors out. At the time, they were valued at $50,000 each.

At the end of 2013, a hotel chain signaled its intention to buy the property and stated that they would begin restoring the hotel in early 2014. However, on the 4^{th} of July 2014 the resort caught fire. No one was injured and the firemen had the blaze under control by the afternoon. However, as a result of this event, the hotel's restoration was put on hold. In 2016, a Honolulu consortium planned to purchase and restore the resort. However, in 2019, the project collapsed.

Source: Many of the facts and images in this case were adapted from a visit to the Coco Palms (2016) and online sources http://newsroom.hyatt.com/2014-05-21-HYATT-EXPANDS-IN-KAUAI-WITH-THE-HISTORIC-COCO-PALMS-RESORT and https://en.wikipedia.org/wiki/Coco_Palms_Resort]

Group Exercise: As a group of four to six entrepreneurs, identify what **international complexities** your group would need to consider in any proposal to restore the Coco Palms Resort.

Coco Palms Resort Lagoon. Famous for the Elvis Presley wedding scene in the 1961 movie Blue Hawaii

[Image: HdV]

Culture and the International Entrepreneur

A great deal has been written about the impact of culture and international business behaviour and values. Max Weber (1864-1920) was the first to emphasise the influence of culture on entrepreneurship. As Basu and Altinay (2000) explain,

> *As Weber famously argued, Protestantism encouraged a culture that emphasized individualism, achievement, motivation, legitimation of entrepreneurial vocations, rationality, asceticism, and self-reliance. This ethic was a fundamental element of the spirit of modern capitalism. (Basu & Altinay, 2000, p. 373)*

However, Weber felt that the tenet of rational individualism was not evident in spiritual traditions, like Hinduism which is embedded in a caste system, rebirth and ritualism factors that determine a person's basic values and beliefs. Basu and Altinay describe culture as:

> *A set of shared values, beliefs and norms of a group or community. … Cultural differences are the result of national, regional, ethnic, social class, religious, gender, and language variations. Values are held to be a critical feature of culture and cultural distinctiveness. (2000, p. 373)*

Geert Hofstede (1920 - 2020) developed the popular framework for measuring cultural dimensions in a global perspective. Hofstede analysed the cultural characteristics of IMB staff in 40 countries. His development of cultural dimensions demonstrates how national culture affects workplace values across these countries.

Hofstede's Dimensions

Entrepreneurs can use Hofstede's cultural dimensions (2011) to improve their cross-cultural leadership, networking and marketing capability, and ultimately reduce their risk. In discussing Hofstede's dimension, Hisrich (2010) explains how culture impacts business behaviour. He contends that assertive countries (akin to Hofstede's masculinity/femininity dimension) enjoy competition in business (Mexico and Austria), whereas less assertive ones, such as Sweden and the Netherlands, prefer harmony in business relationships and thus emphasise loyalty and solidarity. In discussing human oriented cultures (akin to Hofstede's individualism/collectivism dimension), countries such as Egypt, China and Malaysia focus more on collective success and less on rewarding individuals. In contrast, the US, Germany and France tend to be more individualistic:

> *Understanding this environment can help the entrepreneur from a marketing and competitive intelligence point of view, while giving additional techniques for better managing local suppliers, customers, and the workforce. (Hisrich, 2010, p. 54)*

We now consider Hofstede's (2011) six dimensions in more detail.

The Power Distance Index – considers the problem of human power and inequality. In short, it investigates the degree to which the less powerful members of society accept and expect power to be distributed unequally.

In societies that have a ***high degree of power distance*** (those with a high score) entrepreneurs must realise that people accept that everyone has their place in the hierarchical order. The entrepreneur must respect the order of authority and status in their business dealings. For the entrepreneur, this means that business decisions generally require senior approval.

In societies with a ***low degree of power distance*** (those with a low score), people strive to equalise the distribution of power and demand justification for power inequalities. For the entrepreneur, this means that business decisions are often made by people with the appropriate knowledge rather than by those in a specific hierarchical position.

Scenario 1. Power distance: In trying to establish a joint venture arrangement, who should the entrepreneur negotiate with in the organisational hierarchy of a prospective partner:

In **Malaysia,** **Taiwan,** and **Denmark?**

Dimension Score* ____ ____ ____

*Base your answers on scores derived from Table 4.1 Hofstede's Cultural Dimensions

Individualism Versus Collectivism – these terms relate to the integration of individuals into primary groups. An entrepreneur must consider how an organisation/s operates and makes decisions. A **collectivist society** is a tightly-knit integrated one. It is characterised by unyielding loyalty and unquestionable authority (these communities have a low score). In contrast, an **individualistic society** is one which prioritises the individual (oneself) and their immediate family. It includes those communities with a high score.

Scenario 2. Individualism vs collectivism: As an entrepreneur you are negotiating a sale's contract in a new country. What attitudes and decision-making approaches may you encounter:

In **China,** the **Netherlands,** **Peru,** and the **US** ?

Dimension Score* ____ ____ ____ ____

*Base your answers on scores e derived from Table 4.1 Hofstede's Cultural Dimensions

*Base your answers on scores derived from Table 4.1 Hofstede's Cultural Dimensions

Masculinity Versus Femininity – The **masculine** side (societies with a high score) represents a particular society's preference for achievement, heroism, assertiveness and material rewards for success. By and large, Western society is competitive and dominated by men who occupy most of the senior positions. Its opposite, **femininity** (those societies which have a low score), prioritise cooperation, modesty, caring for the weak, and a higher quality of life. These societies tend to be more consensus-oriented and senior roles are distributed more equitability.

In the business context, masculinity versus femininity is sometimes also thought of as "tough versus tender" cultures.

Scenario 3. Masculinity vs femininity: As an entrepreneur, who are you most likely to negotiate contracts with:

In	Austria,	Chile,	Finland,	and Venezuela ?
Dimension Score*	____	____	____	____

*Base your answers on scores derived from Table 4.1 Hofstede's Cultural Dimensions

The Uncertainty Avoidance Index – relates to the level of stress in a particular society in the face of an unknown future. In practical terms, this means entrepreneurs must understand how a society deals with the fact that the future can never be known. Countries which have **strong uncertainty avoidance** (a high score) are more likely to have rigid codes of beliefs and behaviours. They are often intolerant of unorthodox behaviour and ideas. People follow strict laws and rules and security measures. They do not openly accept opinions separate from their own. In business terms, they insist on rigid conformance to principles and clarity in moving forward with any business activities.

Those societies with **weak uncertainty avoidance** (a low score) tend to have a more relaxed attitude. They believe that practice counts more than principles. Furthermore, they have fewer rules. In business terms, this means that if they see potential in a business proposition, they can tolerate a high level of ambiguity and are willing to accommodate various business activities and consider different future outcomes.

Scenario 4. Uncertainty avoidance: How would an unstructured business proposition with no consideration of local norms or values be accepted:

In	Japan,	Singapore,	Canada,	and Greece ?
Dimension Score*	____	____	____	____

*Base your answers on scores derived from Table 4.1 Hofstede's Cultural Dimensions

Long-Term Versus Short-Term normative orientation – this phrase refers to whether people focus their effort on the future or the present. Their orientation is likely to be based on the values of the specific society that they live in. Long-term orientated societies (those with a high score) tend to privilege characteristics such as thrift, perseverance and modern education in preparing for the future. This could be considered a very pragmatic approach. In business terms, such an approach is characterised by a focus on building relationships.

In contrast, a short-term oriented society (one with a low score) respects tradition, social obligations, and views societal change with suspicion. In business terms, this approach often reflects a focus on immediate profit maximisation.

Scenario 5. Long-term vs short term: Entering into the following countries, should an entrepreneur focus on a long-term relationship strategy or short-term profit maximisation strategy:

In	Japan,	Czech Republic,	India,	Egypt, and	South Korea ?
Dimension Score*	____	____	____	____	____

*Base your answers on scores derived from Table 4.1 Hofstede's Cultural Dimensions

Indulgence Versus Restraint - relates to the level of gratification a society expects. **Indulgent societies** (those with a high score) allow relatively free gratification of basic and natural human drives. These societies encourage individuals to enjoy life and have fun.

Restraint societies (those with a low score) tend to suppress the gratification of needs and regulate individuals using strict social norms.

Scenario 6. Indulgence vs restraint: When entering a new market, the entrepreneur must decide on a product mix. Would you suggest a product mix that tenders to society's wants or needs?

In	Mexico,	Bulgaria,	France, and	the United Kingdom?
Dimension Score*	____	____	____	____

*Base your answers on scores derived from Table 4.1 Hofstede's Cultural Dimensions

The Hofstede dimensions can be very useful in that they make the entrepreneur aware of cultural implications of doing business in foreign countries. However, the entrepreneur must be very careful not to fall into the trap of cultural stereotyping.

Figure 4.2
Hofstede's Cultural Dimensions

Country	Power Distance Index (PDI)	Individualist (IDV)	Masculinity (MAS)	Uncertainty Avoidance Index (UAI)	Long-Term Orientation (LTO)	Indulgence (IND)
Australia	36	90	61	51	21	71
Austria	11	55	79	70	60	63
Bangladesh*	80	20	55	60	47	20
Belgium	65	75	54	94	82	57
Brazil	69	38	49	76	44	59
Bulgaria*	70	30	40	85	69	16
Canada	39	80	52	48	36	68
Chile	63	23	28	86	31	68
China*	80	20	66	30	87	24
Czech Repub*	57	58	57	74	70	29
Denmark	18	74	16	23	35	70
El Salvador	66	19	40	94	20	89
Egypt	70	25	45	80	7	4
Finland	33	63	26	59	38	57
France	68	71	43	86	63	48
Germany	35	67	66	65	83	40
Greece	60	35	57	100	45	50
Hong Kong	68	25	57	29	61	17
Hungary*	46	80	88	82	58	31
India	77	48	56	40	51	26
Indonesia	78	14	46	48	62	38
Iran	58	41	43	59	14	40
Ireland	28	70	68	35	24	65
Israel	13	54	47	81	38	-
Italy	50	76	70	75	61	30
Japan	54	46	95	92	88	42
Malaysia	100	26	50	36	41	57
Malta*	56	59	47	96	47	66
Mexico	81	30	69	82	24	97
Morocco*	70	46	53	68	14	25
Netherlands	38	80	14	53	67	68
New Zealand	22	79	58	49	33	75
Nigeria	80	30	60	55	13	84
Peru	64	16	42	87	25	46
Philippines	94	32	64	44	27	42
Poland*	68	60	64	93	32	29
Portugal	63	27	31	99	28	33
Russia*	93	39	36	95	81	20
Saudi Arabia*	95	25	60	80	36	52
Singapore	74	20	48	8	72	46
South Africa	49	65	63	49	34	63
South Korea	60	18	39	85	100	29
Spain	57	51	42	86	48	44
Sweden	31	71	5	29	53	78
Switzerland	34	68	70	58	74	66
Taiwan	58	17	45	69	93	49
Turkey	66	37	45	85	46	49
UK	35	89	66	35	51	69
United States	40	91	62	46	26	68
Uruguay	61	36	38	99	26	53
Venezuela	81	12	73	76	16	100
Vietnam*	70	20	40	30	57	35

****Scores of countries marked with an asterisk (*) are - partially or fully - based on an educated guess derived from data representing similar countries in combination with our practitioner experience.***
Source: http://geert-hofstede.com/argentina.htm.

Exercise 4.4: Cultural Dimensions

Question: The photo depicts workers cleaning windows at the Louver, Paris France.

In what way can the Hofstede dimensions help us to understand how Parisians behave? For example,

- what they may value
- what products or services they may use
- what they expect from employees

la louve, Paris

[Image HdV]

Additional Tips for Doing Business in Belarus

1. Business meetings tend to be low key but formal, so dress smartly.
2. Personal relationships are very important – establishing a partnership based on trust is essential to successful business relationships.
3. Be patient. If you have a good product and a fair price you are likely to succeed. However, the process may take longer than in other countries.
4. Older people in Belarus will introduce themselves using their first name and patronymic (their father's name) and you should use this when addressing them.
5. Before you travel to Belarus get some business cards printed with English on one side and Russian on the other. Give these out to everyone in the room at the start of the meeting.
6. Employ a good local interpreter.
7. It is considered poor form to criticise the host country.
8. Have an open mind and try any food or drink offered to you.
9. Do not adopt an overly rigid approach to prices and agreement negotiate and make concessions.

Source: https://www.belarus.by/en/business/business-customs

International Legal Considerations

The global legal/political systems confronting the entrepreneur vary significantly around the world. Therefore, the entrepreneur must have an understanding of the specific legal/political systems of the countries in which they are operating. While this section only provides a brief examination of the legal/political issues, it highlights the need for the entrepreneur to understand the context which they are entering into and seek appropriate advice.

In a substantive context, Hisrich (2010) states that entrepreneurs need to consider a country's:

***Trade Sanctions or Embargos**:* A government's action against the free flow of goods and services, or even ideas, for political purposes.

***Export Controls**:* These restrict the flow of specific goods and services to a country. For example, the US Government have a *quota system* which restricts the amount of lamb New Zealand firms can export to the US. With the rapid development of information technology, it is becoming harder to enforce the restriction of some products or services.

***Political Risk**:* This is less of a concern in countries that have a history of political stability and consistency such as New Zealand, Australia, the US, and Sweden. In foreign countries, political risk tends to be related to:

- *Ownership risk* – the possibility of losing property (for example, through conflict).
- *Operating risk* - interference with the ongoing operations (for example, imposing controls on prices, production or labour markets).
- *Transfer risk* - the movement of funds within or between countries (for example, through currency and remittance restrictions).

  Ways of dealing with risk include demonstrating social responsibility to the host society and insurance cover for political risk (however, the cost may be prohibitive!).

***Legal Framework**:* can be based on:

- *Common law* - stemming from English law (for example, Australia, Canada, and the UK)
- *Civil law* - stemming from Roman law (for example, France and Latin American countries)
- *Islamic law* - derived from the Quran and the teachings of the Prophet Mohammed (used in Iran, Saudi Arabia, and Afghanistan)
- *Socialist law* - derived from the Marxist socialist system (for example, this is evident in varying degrees in China, North Korea, Russia, and Vietnam)

These foundations lead to a variety of very different laws and regulations for business activities in foreign markets. These are often compounded by treaties and conventions in each country. Critical issues relate to property rights, contract laws, product safety and liability regulations, and employment laws.

***Property Rights**:* An important area of property rights law is **Intellectual Property.** This includes:

- *Patents* - a government can assign exclusive rights to an individual (or company) for a particular invention in that country for a specified amount of time. International patents are administered by the World Intellectual Property Organisation (WIPO) in Geneva, Switzerland.
- *Copyright* – protects original works of authorship. Examples include music, pictures, videos, software and text (such as this book). The copyright is valid for the life of the author plus 50 years.
- *Trademarks* - a word, symbol, design, or even a sound that identifies the source of certain goods or services. These can last indefinitely as long as the trademark continues to be used for its original purpose.
- *Trade secrets* - entrepreneurs may want to keep ideas or processes confidential. This practice usually requires all relevant parties to sign a confidentiality agreement: for example, an entrepreneur and their employees.

Contract: Briefly speaking, a binding contract consists of an offer by a party/parties and acceptance by another party/parties; mutual agreement by all parties; and consideration, as it must offer something of value for all parties; all parties have the legal capacity to enter into a contract. The contract must uphold the law: the contract must hold up in court. Contracts are typically presented in writing and signed to prove that all of those elements are present.

When starting a new venture or expanding an existing business in a new country, the entrepreneur will be involved in numerous negotiations and, as a consequence, enter into contacts. International entrepreneurs must understand the fundamentals of contract law. Making deals based simply on a 'hand shake' can be thwart with danger at the best of times, but even more so with long-term international arrangements (those more than 12 months).

Intellectual Property

Copyright protected journal and book articles
[Image: HdV]

Arthur Guinness started brewing ales in 1759. Guinness is now a global company with the internationally trademarked harp which was registered in 1875.
[Guinness Factory. Images: HdV]

Chapter Summary

This chapter has examined issues pertinent to the international entrepreneur, Key 'take homes' are:

- Entrepreneurs must be aware of complexities within the international environment, which include: nation specific economic, structural, legal and political differences, the fluidity of international trade agreements, currency fluctuations, cultural differences, and global natural events.
- If an entrepreneur is to 'deal' successfully in the international marketplace they must have knowledge of the country's economic structure and development, balance of payments, exchange rates, type of economic system, political and legal systems, culture, technology, local competition and any subsidies offered (Hisrich, 2010).
- Hofstede's cultural dimensions can assist an entrepreneur in their cross-cultural business activities, and ultimately reduce their risk.

Chapter 5: Corporate Entrepreneurship

Do not rest on your laurels. Stay in tune with your market, and most importantly 'innovate or perish!'

The catchphrase for any large organisation is 'innovate or perish'. Yet many large organisations are too bureaucratic, react too slowly to change, demonstrate an inability to adapt to new markets, and stifle employee initiatives. For example, in 2009 Mattel misread the Chinese toy market with the release of Barbie merchandise in Shanghai. The dolls failed to sell because Chinese culture stresses toys that build skills and educate. How can corporations retain the entrepreneurial spirit which they were built on? We consider these issues in this chapter.

After decades of economic decline during war and Soviet rule, Estonian businesses have been revitalised via innovation.
Derelict building Tallinn, Estonia [Image: HdV]

What is Corporate Entrepreneurship?

Corporate Entrepreneurship is a term that evolved during the 1980s. It is often used to explain entrepreneurial behaviour, typically in a medium (100-500 employees) or large-sized (greater than 500 employees) organisations. In order to remain competitive, **HamiltonJet** (a medium-sized, New Zealand business), the inventors of the world's first jet boat, must strive to stay at the forefront of jet propulsion technology. Likewise, US global giant **Microsoft** faces strong competition in the mobile phone, cable television, and gaming console markets. The company must continue to be a market leader and innovator.

Definitions for corporate entrepreneurship have evolved over the last 40 years. Scholars have used other terms like intrapreneurship and corporate venturing. In essence, a company's corporate entrepreneurship encapsulates the generation, development and implementation of new ideas and behaviours (Morris, Kuratko, & Covin, 2011). Scholars have argued that corporate entrepreneurship increases revenue streams, empowers employees, and improves profitability (Kellermanns & Eddleston, 2006).

Corporate entrepreneurship involves two key types of change (1) the founding of a new business within an existing organisation and, (2) some form of renewal within an established organisation (Guth, 1990). The concept of corporate entrepreneurship (CE) is embedded in the notion of innovation. It is thus necessary to ask, how do we infuse innovation in large established businesses that may be stifled by bureaucracy and traditional (risk adverse) thinking? In short, corporate entrepreneurship is about enacting change. Corporate entrepreneurs are individuals within existing organisations who are capable of being innovative. They may introduce new products or processes to the marketplace, constantly look to reinvent (or reimagine) their organisation, or overcome structural and operational constraints that are often inherent in large organisations.

Exercise 5.1: HamiltonJet

HamiltonJet's parent engineering company, CWF Hamilton & Co Ltd, was formed in 1939 and built construction equipment. Its operations were centered around premises in Christchurch, New Zealand. It also had a small workshop at Irishman Creek Station in the rural high-country. For the ensuing 60 years, the company pursued a policy of planned diversification. This was a natural progression from the early experimentation at Irishman's Creek where they built boats propelled by jet units. This project was initiated and championed by Sir William Hamilton, the company's founder. Over several decades of experimentation, this jet propulsion initiative produced the world's first commercially manufactured jet boat.

In response to the increasing popularity of jet boats and waterjet propulsion in the 1960s and 70s, Hamilton Engineering began producing large numbers of marine jet units. This was in addition to its industrial division which produced construction equipment, cranes and hydraulics. To meet demand, Hamilton Waterjets contracted manufacturers in the US and UK to produce their waterjets under license.

During the late 1970s and early 80s, the Directors of CWF Hamilton & Co recognised the growing potential for waterjet propulsion systems and made the decision to phase out the industrial side of Hamilton Engineering so that they could concentrate on the production of waterjet units and hydraulics: this led to the formation of HamiltonJet.

Today, HamiltonJet employs over 300 people in all aspects of waterjet design, production and service. Along with the marine jet units, the company also produces its own electronic and hydraulic control systems. Source:

Adapted from HamitonJet (2016).

Jet boat on the Dart River, NZ
[Image: HdV]

Question: Although Sir William Hamilton was the inventor of the jet-boat, this is now a globally manufactured product. What should the HamiltonJet management team do to ensure the company remains competitive?

Who is a Corporate Entrepreneur (Intrapreneur)?

The fundamental difference between an entrepreneur and a corporate entrepreneur (intrapreneur) is the environment in which they work. The former commonly works in their own venture, whilst the latter must work within a corporate structure. Intrapreneurs are individuals who take direct responsibility for turning risky ideas into profitable products. They may also reinvent processes within larger established business structures including corporations, not-for-profit organisations, the public sector, and large family businesses.

Kuratko (2004, p. 69) has argued that the intrapreneur needs to be ready to:

- Come to work each day prepared to be **fired!**
- Keep the **vision** strong.
  - They may need to **side-step directives** intended to stop their ideas.
  - Remember the adage that 'it is **easier to ask forgiveness** than it is to ask for permission'.
  - In being true to their goals, they must **remain realistic** about the ways they can achieve these within a corporation.
- **Do any task needed** to make their project work, regardless of their job description.
- **Network** with **good people** who will help them to achieve goals: Work with the best.
  - They must be **loyal and truthful** to their supporters and their team.
- Work **'below the radar'** for as long as they can: publicity can trigger the corporate 'immune mechanism'. The *NoNos* (Kotter, 2006) will surface! A *NoNo* is a person or people who will resist and disrupt any initiative to change the status quo.

In the face of adversity, intrapreneurs are people who are optimistic, resilient and do not blame others for any failure or setbacks. They believe that they are in control of their own destiny.

Exercise 5.2: Preconceptions about Corporate Entrepreneurs (CErs)

	True	Some Truth	Not True
1. Money is the CEr's primary objective	☐	☐	☐
2. CErs are gamblers and high-risk takers	☐	☐	☐
3. CEr s are not analytical: they 'shoot from the hip'	☐	☐	☐
4. Success is more important than being ethical, looking after your fellow workers or sticking to moral principles	☐	☐	☐
5. CErs are power hungry, empire builders	☐	☐	☐
6. CEr s want their venture to grow as big and as fast as it can	☐	☐	☐

Question: Which of the above statements are: true, substantially embedded in truth, or not true? In each case, state the reasoning behind your answer.

The Corporate Entrepreneurship Paradox

As organisations evolve into large corporations, they adopt structures that support efficiency, certainty, and consistency. These structures can be bureaucratic and hierarchical, and hinder the activities of entrepreneurially minded people. These organisations must constantly think about how they can embed the drivers and overcome the inhibitors of entrepreneurial behaviour.

Entrepreneurship Versus Management: An Organisational Perspective

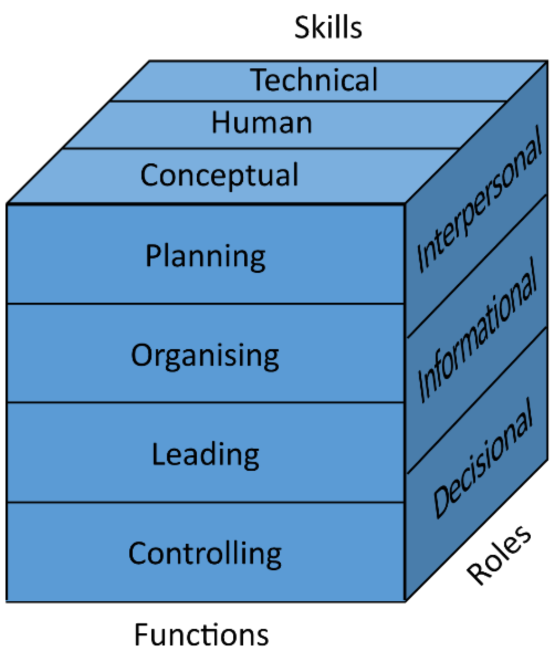
Are there any differences between a corporate entrepreneur and a corporate manager? How can we distinguish between entrepreneurial and management behaviour in organisations?

According to management theory (Schermerhorn et al., 2017), a manager is an individual who is responsible for ensuring that an organisation runs *effectively and efficiently*. Through the planning, organising, leading and controlling, they ensure that their organisation operates at the expected performance level. Effective managers have technical, human and conceptual skills. They have the ability to communicate with and motivate staff, understand how different parts of the organisation work together, and are able to interact with their external environment. They fulfil a number of different roles in the organisation: they may adopt an interpersonal role (they may act as a figurehead or leader), they may adopt an informational role (they may act as a spokesperson or disseminator of information) and they may adopt a decisional role (they may negotiate with customers and suppliers or handle organisational disturbances).

As Figure 5.1 shows, these management capabilities are interconnected, as functions, roles and skills are interdependent. For example, a manager with poor human skills (an inability to work well with other people and through other people), would find it difficult to enact the leading and organising functions, or the interpersonal role.

Figure 5.1
de Vries Management Cube

[Sketch: HdV]



Exercise 5.3: Manager Roles

Seoul, South Korea
[Image: HdV]

Samsung – Korea: In September 2016, Samsung's newly released Galaxy Note 7 was found to be defective. It was at risk of catching fire. The company's Mobile President Koh Dong-jin appealed to users to " power down their Galaxy Note 7s and exchange them as soon as possible."

Sydney, Australia
[Image: HdV]

Progressive - Australia's supermarket giant. In 2014, Progressive claimed that its management team's negotiations with suppliers were always "robust" but "fair". Yet, one insider revealed that when suppliers and supermarkets do deals, it is always the big retailers who hold all the cards.

Question: What roles are identified in the above examples?

In contrast to a manager, an entrepreneur is more focused on what 'can be,' rather than 'what is.' As mentioned in the introduction, a corporate entrepreneur is interested enacting change. In short, they are action oriented and do not accept the status-quo. They often reinvent themselves and re-imagine their organisation. These activities they promote are intended to enhance an organisation's ability to utilise its creative capabilities and drive innovation through fresh or novel corporate endeavours.

Current thinking suggests that an organisation needs both managers and entrepreneurs. Each one offers an organisation different, but invaluable contributions. In comparing and contrasting the characteristics of both, we can see that they are not necessarily one and the same (Table 5.1). Although the list below is not all-conclusive, in referring back to our introduction to entrepreneurship theory we can itemise many of the entrepreneur's traits/behaviours and compare these to traits/behaviours expected of a manager.

Table 5.1
Entrepreneurs Versus Managers

The Entrepreneur	The Manager
• Visionary	• Rational/Analytical
• Inspiring/Personal Power	• Positional Power
• Moderate Risk-Taker	• Deliberate/Structured
• Networker	• Consulting
• Change Agent	• Change Implementer
• Innovative	• Stabiliser
• Resource Marshalling	• Budgeter/Resource Allocator
• Adaptive	• Problem-solver
• Growth Oriented	• Strategy Oriented
• Independent Minded	• Authoritative
• Action Oriented	• Procedure Oriented

The Growth Dilemma

Why is it that some successful companies appear to lose their way in regards to innovation and renewal, while others continue to reinvigorate themselves and bring new products, services or processes to the marketplace?

All businesses go through an organisational life cycle. This has implications for entrepreneurship. In studying this evolution, Greiner (1972) has identified five crises that an organisation needs to overcome to ensure its continued growth (Figure 5.2).

Phase 1

This phase covers the launch of a new venture. It is a highly **creative phase** with innovative new products and services. For the entrepreneur/founder and their team, the venture is new, exciting, and sometimes stressful. The future is uncertain and demanding. At this stage, the venture often operates informally. Everyone is involved and feels that they are part of something very meaningful. This is the phase when the entrepreneur is truly in their element. They are in control, their creativity is unleashed, and their decisions can be quickly enacted.

However, Greiner (1972) has argued that as the organisation grows, it will inevitably experience a **crisis of leadership**. There will be a need for more formal direction achieved through the implementation of various management principles, such as the establishment of an organisational structure, the formalisation of operational systems, budgets and control systems, and appointing department managers.

Phase 2

An organisation that survives the first phase then operates under a great deal more **direction and formalisation**. As a functional structure (such as departmentalisation) is introduced, staff have more clearly defined roles: job descriptions become more specialised. In this stage, management style is generally authoritative and top-down.

Greiner has stated that a **crisis of autonomy** will occur as the organisation continues to grow. The directive style becomes inappropriate for controlling an expansive organisation. For example, lower-level staff may feel restricted by the cumbersome and centralised hierarchy and suppression of the entrepreneurial spirit. Staff may feel that they are closest to the customer and best understand their needs. As a result, they are often torn between following procedure and taking initiative. The solution is then to move towards **greater delegation**; however, top management often find it difficult to accept the reduced control!

Phase 3

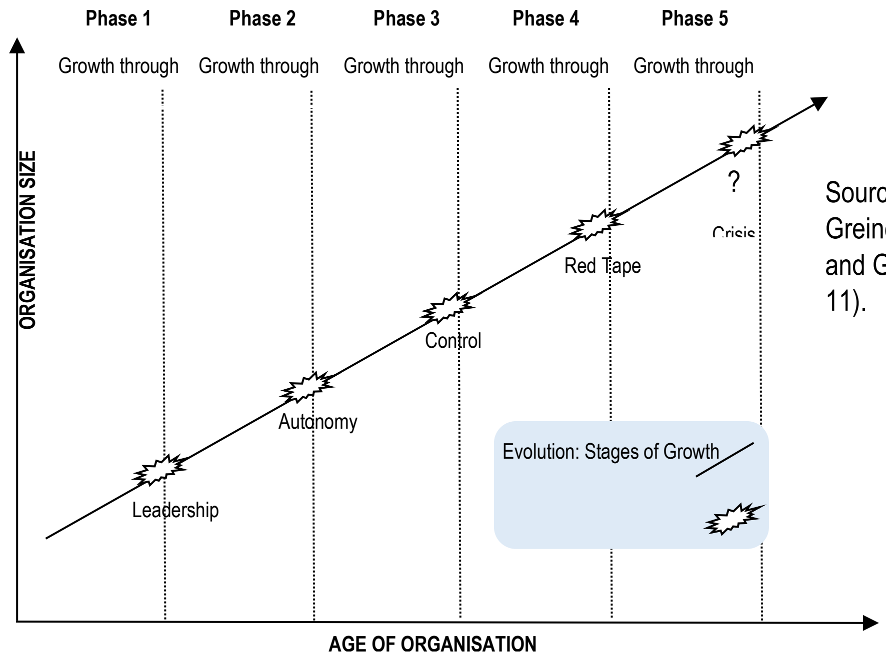
If the organisation can progress through the crisis of autonomy, it can then create **semi-autonomous business units** (or strategic business units known as SBUs), such as product divisions and regional branches. These SBUs are given their own specific targets and bonuses to stimulate motivation. Within broader policy, procedural and reporting requirements, these units are free to run themselves as they see fit, including the fostering of entrepreneurial initiatives. In this phase, senior management can focus on the organisation's overall strategic direction and on mergers and acquisitions.

Continued growth will ultimately produce the next **crisis of control** as management sense that they are losing control of a highly diversified organisation. Managers of the diverse units may appear to run them like their own empires with little regard to the implications for the whole organisation. Communication can break down as units compete for resources, and customers receive mixed signals. Inefficiencies become apparent as units duplicate processes and systems. Entrepreneurial initiatives rein unchecked and directionless. Greater central co-ordination is needed again, but unlike in phase 2, the solution involves applying specialised coordination techniques.

Phase 4

In this phase, the organisation's top management takes responsibility for introducing and administering formal systems which achieve greater **coordination**. Examples include, merging some SBUs, more formal planning procedures, and a large head office to monitor SBU activity. Certain technical functions, such as accounts processing or HRM are centralised at the head office. At this stage, stock options and profit sharing are sometimes introduced to encourage identity with the organisation. Assuming growth continues unabated, the next **crisis** is that of **red tape** as, over time, greater centralisation can breed bureaucracy. There is often a proliferation of systems and programmes which exceed their value: that is, some procedures/programmes cost more than the benefits they accrue. They also dampen innovation and individual initiative as procedures and programmes take precedence over all else, and mistakes are not tolerated! A lack of cohesion or understanding between front-line staff and the head office may gradually build as staff feel constrained and criticise the bureaucratic, cumbersome, and controlling reporting system that has evolved. This again stifles any entrepreneurial potential. In essence, the organisation has become too large and complex to be managed with formal and rigid programmes and systems.

Figure 5.2
Greiner's Growth Model



Source: Adapted from Greiner (1972, pp. 37 - 46) and Greiner (1998, pp. 1 - 11).

Phase 5

Greiner's last observable phase emphasises strong **interpersonal collaboration** as a means of overcoming 'red tape'. This places emphasis on greater spontaneity in management action through teamwork and better interpersonal skills. Its characteristics include, solving problems quickly through team action, cross-functional team activities, reduced headquarters, simplified systems, policies rather than procedures, team rewards, and experimentation.

It is very difficult for many organisations to move beyond phase 4, the precursor to the **interpersonal collaboration** phase. In short, once the red tape mentality is established, it is hard to remove it or for the organisation (and its staff) to transform itself into one that encourages collaboration creativity and risk taking!

Ultimately a small number of organisations may reach another **crisis of growth**, depicted by the 'question mark' in Greiner's model. This is where continued growth, stabilisation, or retrenchment may occur.

To conclude, as organisations evolve, they move through various phases in which the organisational practices are required to change. Changes can occur in managerial focus, company structure, top management style, sources of control, and reward systems. Evidence would also suggest that throughout Greiner's growth model phases, an organisation is at risk of systematically destroying its entrepreneurial spirit: That is to say, a company which was founded by an entrepreneur and highly entrepreneurial in the start-up phase becomes progressively more bureaucratic over time as each new phase unfurls new systems, structures, rules and procedures. Thus, large organisations must constantly embed the drivers and overcome the inhibitors of entrepreneurial behaviour.

The Corporate Entrepreneurship Process

Corporate entrepreneurship (CE) can evolve organically. However, as previously noted, there are significant barriers to CE. In other words, it cannot be left to chance. If it wants to remain competitive, an organisation should devise and implement a CE strategy.

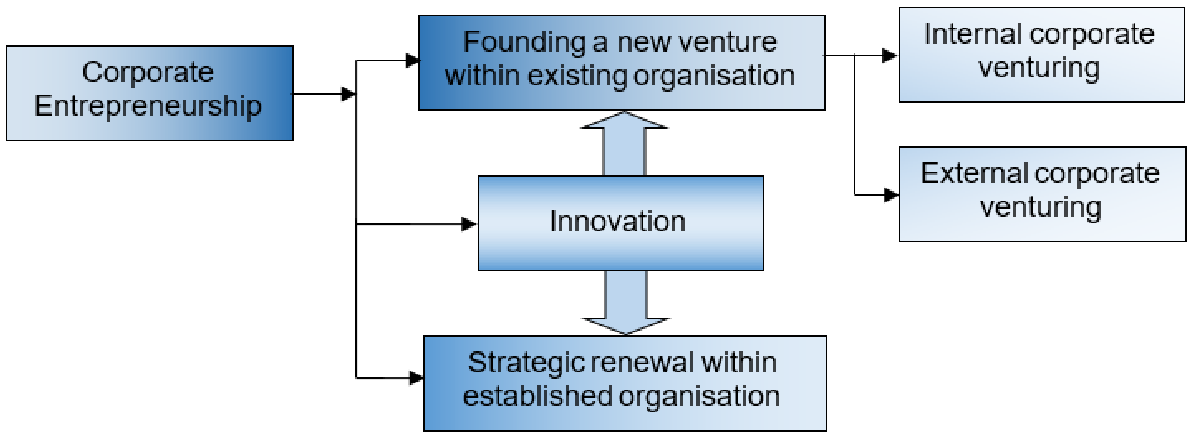
Corporate Entrepreneurial Activity

How can an establish organisation foster an entrepreneurial spirit? Sharma and Chrisham (1999) have argued that CE involves three types of activities (Figure 5.3):

1) CE may involve the creation of a whole new venture within an existing organisation, referred to as corporate venturing. It can be undertaken internally within the organisation through entities such as strategic business units, or externally by creating semi-autonomous units outside of the organisation, such as spin-off and joint ventures (the creation of a new business).
2) Strategic renewal can occur within an established organisation. This means that the organisation will undergo significant changes in its strategy or structure. This process will result in changes to established relationships, both within and outside the organisation. In short, this process involves the reconfiguration of an established business.

3) Both renewal and venturing may involve innovation. The degree of innovation can vary from disruptive to incremental (See Innovation in Chapter Three).

Figure 5.3
Corporate Entrepreneurship Activities



Source: Sharma and Chrisham (1999, pp. 11 - 27).

Erste Group Bank, Austria

How can a large institutional bank be innovative, attract entrepreneurial staff who would normally avoid a traditional business, and develop state-of-the-art retail banking solutions?

In 2012, Erste Group Bank founded an independent subsidiary, BeeOne. Staffed by bankers, non-bankers and technical experts, this wholly owned subsidiary was created to embrace an entrepreneurial atmosphere in which good ideas can be put into practice. They develop new banking apps and innovative web solutions for their customers.

Christian Berger, managing director and founding member of BeeOne, revealed that the process always begins with customers' existing problems: "We adopted a Stage-Gate approach, from idea creation to implementation. In the first stage of the creation process, we hold 'shooting sessions,' in which the team decides whether the idea is worth pursuing or can be improved on. Some ideas may fail at this gate. For the ideas which make it to the text stage in the process, we create a prototype. At this final gate, we decide whether or not to launch the product. Of the 90 projects pitched to date since BeeOne's inception, 37 have made it to prototype and 14 to the implementation phase." According to Berger, "BeeOne aims ... [to] deliver an outstanding customer experience across all channels to the clients of Erste Bank."

Before BeeOne, Berger worked as manager in different international functions and bank divisions, mainly in Digital Retail Banking and IT in Erste Group and Bank Austria.

Source: Berger (2015, pp. 22 - 23)

Corporate Entrepreneurship Strategies

Ireland et al. (2009) argue that corporate entrepreneurship strategies have three key components: antecedents, elements and consequences (Figure 5.4).

Antecedents

Antecedents of a **corporate entrepreneurship strategy** include *entrepreneurial cognitions or* the beliefs, attitudes and values that create a positive disposition towards entrepreneurial activity. They also include *external entrepreneurial conditions* that trigger the need for a CE strategy. Conditions could include rapidly changing competitive environments, technological change, hostile business environments, and changing or emerging products or markets.

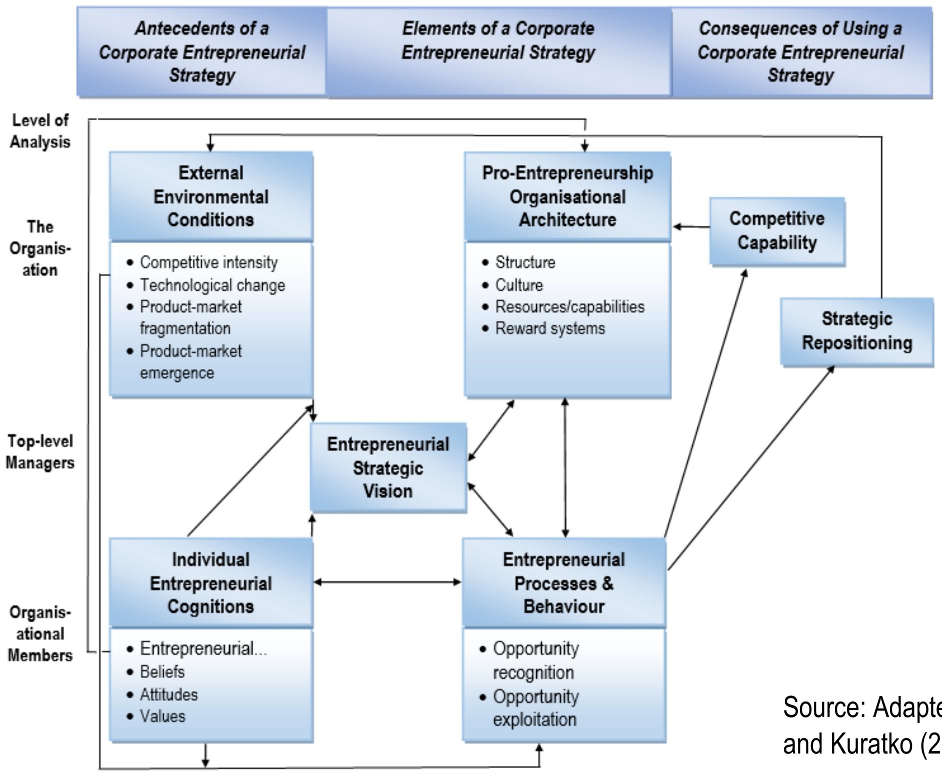
Elements

The presence of these antecedents can be catalysts for top level managers' development of an *entrepreneurial strategic vision*. They are tasked with promoting a *pro-entrepreneurial architecture* that translates into a specific vision that drives *entrepreneurial processes and behaviours* (Ireland et al., 2009, p. 30). Creating a pro-entrepreneurial architecture is challenging. Ireland et al. argue that it can only succeed in the presence of a strategic vision which defines an organic structure, a culture that favours entrepreneurial behaviour, strong entrepreneurial capability, and reward systems that encourage entrepreneurial behaviour. Entrepreneurial 'processes and behaviours' refer to people within the organisation recognising opportunities and being ready to exploit them.

Consequences

Organisations that employ CE are typically looking for improved performance now and in the future. There are two principal types of outcomes: developing greater capability, and the firm's strategic repositioning.

Figure 5.4
Corporate Entrepreneurship Strategy



Source: Adapted from Ireland, Covin, and Kuratko (2009, pp. 19 - 46).

Exercise 5.4: SCIRT

In September 2010, a magnitude 7.1 earthquake struck the Canterbury region of New Zealand. The epicentre was 40 km west of Christchurch city. The quake caused significant damage to buildings and the region's infrastructure. The territorial authority, the Christchurch City Council, contracted five local construction companies to repair the city's horizontal infrastructure, with each contactor allocated a specific geographic area to restore. In the months following the initial tremor, there were frequent aftershocks. On the 22nd of February 2011 the situation changed radically with a major magnitude 6.3 tremor. Unlike the earlier events, this tremor occurred close to the heart of the city and at a depth of only 5 km, resulting in far more devastating consequences: there were 185 fatalities and thousands of injuries. There was also extensive physical damage, which affected the city's infrastructure, homes, and workplaces.

The seismic activity had an extensive impact on the local buildings, as well as the economic, social, and natural environments. Many of the city's residential and commercial premises were severely damaged, meaning that countless residents and organisations were forced to relocate. The ongoing tremors, and continued disruption to the city's infrastructure, had a negative impact on businesses and employment. They also adversely affected residents' health and mental wellbeing.

The extent of infrastructure damage in the February event was ten times greater than the earlier, September event. The central business district was closed for safety reasons, with parts of the city remaining shut to the public for more than two years. The scale of the damage, and the restoration work needed, meant that the model for managing the recovery from the initial September 2010 tremor was no longer applicable. The new circumstances demanded a city-wide approach to manage the urgent restoration of vital infrastructure amidst a difficult and constantly changing environment.

Destruction of retail stores in the city centre shopping district: Colombo St

[Image: HdV]

While a body of research evidence points to the benefits of using local agents in disaster management and recovery, no single local organisation had the necessary resources to manage the immense scale of work. The alternative option, bringing in a large organisation from another country was also problematic as it would have clashed with citizens' expectations that local companies should be involved, and produced a range of logistical problems. As a solution to this dilemma, the city council, the national roading agency and the government created an innovative, experimental alliance model to address these extra-ordinary project demands.

Drawing on previous experiences of commercial alliances in road construction projects, the government created an innovative organisational arrangement, with an alliance formed between eight major parties. Three of these were the client organisations, who supplied the funding, and for whom the work was being done. These funder-clients represented very different sectors, covering the local government (the Christchurch City Council, CCC), the national roading agency (the New Zealand Transport Authority, NZTA), and an agency specially formed by central government to manage the disaster recovery (the Christchurch Earthquake Rebuild Authority, CERA). The other five organisations were contractor companies involved in delivering the reconstruction projects. This new alliance organisation was named the **Stronger Christchurch Infrastructure Rebuild Team (SCIRT)**.

Six months after the disaster, SCIRT began work as a project-based alliance, taking on the delivery of approximately 600 major projects designed to repair or replace the city's horizontal infrastructure. The organisation had a demanding timeframe for completing this reconstruction work. It was agreed that the work would be completed by December 2016 and at this point, the organisation would be disbanded.

Source: Adapted from Walker, de Vries, and Venkataraman (2016, p. 34).



Large parts of the inner city remained closed to the public for more than two years

[Image: HdVs]

Question: This alliance was charged with rebuilding the city's infrastructure, including the roading, water and sewage systems, and storm water bridges. They were required to operate under strict time constrains, and extremely difficult construction conditions. They often had to operate in 'unknown territory'.

Using Sharma and Chrisham, and Ireland et al.'s models of CE, explain how SCIRT's management could embed CE in the alliance organisation in order to foster entrepreneurial behaviour.

Corporate Entrepreneurship: Differing Contexts

The implementation of CE and ensuing obstacles can differ according to the venture's size, ownership, structure, and goals. We consider various ventures below.

Corporate Entrepreneurship in Family Businesses

Like other organisations, CE is important to family business survival. Ultimately, family businesses look to achieve profitability and growth as a means of strengthening a family's economic wealth and social position. Furthermore, with the increasingly dynamic and uncertain global marketplace, family businesses need to retain, or in some cases, revive their entrepreneurial mindset to remain competitive.

How can family businesses embed CE? Scholars have suggested that a willingness to change, generational involvement, and technological opportunity recognition, are all positively related to corporate entrepreneurship in family firms (Kellermanns & Eddleston, 2006).

Generational Involvement

The entrepreneurial spirit of a family business can increase or decrease over time. Like all venture creations, the founder of a family business is entrepreneurial. But, as the founder establishes a successful business, in their desire to retain business value and wealth for the next generation, they may become more conservative and risk adverse. If this occurs, then it is up to the next generation to change and push boundaries. 'Family politics' which can occur as the family grows, inevitably lead to a divergence of ambitions and interests. To ensure the business' continued success, family members must retain CE as it is crucial for the ensuing generations. To remain successful, the family must acquire the knowledge accumulated from previous generations and modernise the business by introducing new products and services, enter into new markets, and when applicable, consider internationalisation.

Willingness to Change

If they are to survive, all organisations must change. They must take advantage of opportunities present in the environment. Family businesses are no different. Yet they can be stifled by several factors which include a fear of change, an unwillingness to modernise, being cost focused, or as a result of having an emotional attachment to the traditional way of doing things. This is encapsulated in the saying, "We have always done things this way!" This approach can be exasperating, particularly when the founders deny requests to change the organisation or introduce new technology. These inertia factors highlight the need for family businesses to embrace a culture that is amenable to change.

Perceived Technological Opportunities

This refers to the degree to which family businesses are open and attuned to new technological opportunities. The more open they are to technological change, the more likely they are to engage in CE. Businesses that do not possess a mindset that can recognise and exploit technological opportunities are unlikely to promote CE.

The Moderating Effect of Strategy

Although Kellermanns and Eddleston's (2006) study found an association between a business' willingness to change, embrace technological opportunities and CE, they did not find clear association with generational involvement. They did, however, suggest that how effectively family firms can assume all the above elements is directly related to their ability to adopt strategic planning. Without a long-term perspective (which includes spawning and exploring new ideas, a willingness to adopt change, experimenting across the generations, and adopting new technologies), brought about by strategic planning, CE would not occur.

Corporate Entrepreneurship in Not-For-Profit Organisations

Social entrepreneurs also operate in the challenging world of not-for-profit organisations (NPOs). This is an environment where social needs invariably outstrip available resources and the requirements for social products and services constant change. Social entrepreneurs working in this field must navigate a labyrinth of regulatory or political constrains. There is also strong competition for donations (revenue) and volunteers (labour).

NPOs also have quite distinct characteristics that can pose some challenges for CE initiatives. Firstly, they are NOT generally profit driven; they serve some form of greater social purpose (protecting the environment, upholding human rights, or improving education in developing nations). The final recipients of the NPO's products or services are not likely to be paying customers (for example, if an NPO's team of volunteers builds a school in an African village, costs are more likely to be paid for by overseas donations than by local community members). Hence, NPOs are accountable to a wide range of stakeholders). They are also often charged with mobilising a vast range of volunteers. Furthermore, managers within NPOs may have to negotiate conflicts associated with the twin focus on the 'social mission' and their clients' immediate needs (for example, accommodating the homeless or saving starving children), and the need for professional management practices which drive the NPO's long-term viability. Finally, it can be difficult to measure the social benefits accrued by NPOs. How can one effectively measure social good?

Social Good or Not?

Philanthropist and entrepreneur **Sir Ray Avery** spoke of his frustration with NPOs in Africa: "An underlying problem is that most aid agencies need to justify their existence and fall into the trap of thinking that being seen to do something, even if it is not help." (Avery & Little, 2010)

Despite these challenges, social entrepreneurs do operate successfully in the NPO space, regardless of whether they are small local initiatives (like Sir Ray Avery's Life Pods) or organisations that transcend nations (such as World Vision or Greenpeace). In these organisations, entrepreneurial activities can take the form of better revenue generation and the creative expansion of products and services; for example, delivering better solutions for social and environmental problems.

Exercise 5.5: World Vision International

World Vision International is an Evangelical Christian humanitarian aid, development, and advocacy organisation. It is currently active in more than 90 countries, and receives grants and donations in the vicinity of USD 2.90 billion (2019). World Vision was originally founded by Robert Pierce in 1950 as a service organisation for missionaries. It subsequently added development work and child support to its objectives.

Despite the enormous social good achieved by World Vision it has also been plagued by controversy around the child sponsorship funds not reaching the specific children, local corruption in diverting food and supplies for personal gain, and cases of political conflicts of interest.

Question: How can social entrepreneurs embed CE in large NPOs?

Corporate Entrepreneurship in the Public Sector

The absence of entrepreneurial behaviour is endemic in the public sector. Politicians and citizens around the world often complain about excessive bureaucracy, inflexibility, and indifference.

Indifferent and Inflexible

"I remember on an occasion in the 1990s when I had paid our company's tax obligations by the due date of January 15, yet I received a notification from the IRS [Inland Revenue Service] that my payment had not been received. I was able to prove through my bank records that I had paid the correct sum and that the IRS had in fact received it. Yet the staff member I was dealing with was adamant that since there was 'no record on their system' of my payment, to avoid penalties, I should repay the full amount again. Then once 'their system' had identified a double payment they would reimburse me the following month!"

Source: A business owner's reflection (2021)

This case not only demonstrates the IRS' indifference to the cash flow implications for this particular business owner, but also the *inflexibility* of a government agency in dealing with their own system errors.

Entrepreneurial behaviour is just as important for the public sector as it is in the private sector. The problem lies in what Morris, Kuratko, and Covin (2011, p. 128) describe as the *'unique characteristics'* of the public sector:

- It is driven by social and political objectives as opposed to profit motives,
- It experiences low market exposure and therefore has less incentive to reduce costs,
- As the revenue collected is often in the form of compulsory payments, it does not depend on customer satisfaction,
- It produces services that have repercussions beyond immediate actions,
- activities are often subject to public scrutiny through consultation with public interest groups,
- is risk adverse.

These characteristics make it more challenging to introduce CE. In many developed countries, governments have introduced market mechanisms into the public sector to foster an entrepreneurial spirit.

Market Mechanisms in the Public Sector

The Fourth Labour Government of New Zealand (July 1984 to November 1990) enacted major social and economic reforms, which later became known as **Rogernomics** (they were named after the architect of the reforms, Finance Minister Sir Roger Douglas).

"Between 1984 and 1993, New Zealand underwent radical economic reform, moving from what had probably been the most protected, regulated and state-dominated system of any capitalist democracy to an extreme position at the open, competitive, free-market end of the spectrum." (Nagel, 1998)

One of the cornerstones of 'Rogernomics' was public sector reform. Decades of successive government protectionist policy had bred complacency, inefficiency and reluctance to change in government owned infrastructure businesses. Sir RogerDouglas corporatised many into State Owned Enterprises. Organisations such as the mail service, telecommunications and the national airline were required to perform more like private businesses, with a focus on reacting to competitive market forces, revitalisation and meeting profit expectations. Many were completely privatised in later years.

Morris, Kuratko, and Covin (2011, p. 142) suggest key areas that governments should focus on when creating CE. These include creative ways to introduce competition and incentives for efficiency (for example, outsourcing specific products/services); empowering citizens in the running of services (for example, community-run school boards); increased emphasis on the mission/vision over rules and procedures; developing a culture of good customer service and satisfaction; and decentralising decision-making while simultaneously fostering a proactive approach to staff problem solving and prevention.

Corporate Entrepreneurship and Partnering

A further avenue to consider is the cross pollination of corporate entrepreneurship between business partners. For an organisation, this could include collaborative innovations with external entrepreneurs, suppliers, customers or other stakeholders.

Exercise 5.6: Partnering and Innovation: Ravensdown

In discussing Corporate Entrepreneurship, CEO Greg Campbell and Procurement Officer Chad Gillespie spoke of the importance of business partnering with suppliers. When referring to his overseas suppliers, Greg said, *"what we've tried to achieve with the relationship, and it has worked, is we want first access to emerging technologies."*

CEO Greg Campbell [Image courtesy of Ravensdown]

"We have become a testing ground for a number of these large companies, to deal with us before it's actually global. We do that on the basis that we have it exclusively for New Zealand and therefore have an early competitive advantage in New Zealand. So, we don't just want a supplier relationship." Greg went on to say that when the relationship is strong, the amount of commercially sensitive information that is shared is astounding. He noted, however, that not all

suppliers operate that way: *"Some do not invest in technology or extending their commercial life."* Chad continued, "*With these partners there is more of a joint market approach, as they understand what our requirements are and where we are going, and want to help us to succeed in our market place. As opposed to transactional suppliers who may just be interested in getting the order and delivering a product."*

Greg highlighted the importance of a secondary supply chain: *"It's all very well having a partnership, but if something happens on a political front or heavens forbid a war, an event, or another GFC (global financial crisis) that affects a particular supplier, we need to have another source. So, remaining open with other suppliers is important."* He continued, *"And the other thing with dealing with one partner, when you are expecting them to come up with new developments or new products, their competition is doing the same. So, you don't want to be blindsided by that either. So it is a fine line."* Greg also spoke of internal entrepreneuring: *"We have a GM of innovation. It's a role about new innovations, new technologies, new emerging things, things we haven't thought about for tomorrow. What we are good at in the agriculture sector is evaluating and putting in systems. So, our suppliers, particularly the large ones, have their laboratories, their scientists – they have their own universities for example, and we are linking them into our own agro universities in New Zealand such as Lincoln, Massey, Canterbury and Waikato. We do a lot of work with Lincoln and Massey, particularly as they are land based. So, we are continually looking at what the buyer behaviour trends are, what consumers are looking for in products of the future."*

Greg is adamant that there is transparency and traceability in all transactions: *"If it is stated that a product has specific components in it, that it's actually true."* Greg suggested that is not always the case in other countries. He added, *"That's our New Zealand position and if we get that wrong and it ends up going through to the ultimate end product that the consumers eat, we have a big problem."*

[Image: HdV]

When asked about innovation within the organisation from the ground-up, Chad replied, *"Over the last few years we have rolled out a continuous improvement programme. There are about 33 champions in the company, and training has been provided to another 300 people to date."* Greg revealed: *"I have eleven hundred ears in this organisation at the moment."* Chad continued, "*We have a good system and database for these ideas, and processes for working through them. There is a lot of effort going on. It's been gaining a lot of momentum especially over the last 18 months."* Greg added, *"And we have had some fantastic wins."* By way of example, Greg explained how the financial team had redesigned internal processes – restructuring resources and decluttering accounts. He provided another example: the company's plant testing laboratory, a stand-alone business that is 100% owned by Ravensdown. It deals with 70-80 thousand soil and plant samples per year. The company decided to simplify this process: As Greg explained, *"What they were doing at one stage was a very manual process. So, we went to bar coding, GPS location."* Many of the lab's manual processes have been mechanised with machines the company has designed themselves.

Ravensdown has a company called C-Dax, which is a pasture measurement business. It uses technology and innovations they have developed. As Greg explained, *"They are always doing things. They are looking at robotics, it has its own business model; it sells pieces of equipment. So it is a profit centre."* Furthermore, the company has also entered the mass-customisation market. As Greg explained, *"We look at what* *technologies we can use for products, slow release, less leaching, less greenhouse gases, all those sorts of things."* They have created precision blending. This enables them to create more customised blends: "*We talk about prescriptions. It is a bit like going to your doctor and then you go and see a pharmacist. What used to be was - you had a farm, and you would get the same product as other although you are in quite different geographies. So, the agronomists can actually now develop a prescription that is specific to what you are trying to achieve on your farm. With the constraints that you have with production, the water; and we can now blend for that. Without the new technologies we would never be able to do it."*

Activity: Describe three of the benefits that Greg and Chad achieve through corporate partnering.

Chapter Summary

This chapter has considered the context in which corporate entrepreneurship (CE) occurs. It has also discussed the challenges to and the methods of embedding CE in large organisation. Key 'take homes' are:

- Corporate Entrepreneurship is a term used to explain entrepreneurial behaviour in medium or large sized organisations.
- Corporate Entrepreneurs and corporate managers have different roles and traits.
- Growth in large organisations relies on embedding the drivers and overcoming the features that inhibit entrepreneurial behaviour.
- Sharma and Chrisham (1999) and Ireland et al. (2009) offer models which we have used to explain corporate entrepreneurship activities and strategies.
- Corporate Entrepreneurships occurs in, and is equally important for, family businesses, NPOs, the public sector and between business partners.

Chapter 6: The Entrepreneur and International Marketing

Is it unreasonable to suggest that the centre of gravity of the world's economic power is shifting?

Marketing can formally be defined as the activities, set of institutions, and processes associated with creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large (American Marketing Association, 2013). From a conceptual point of view there is not a great deal of difference between domestic or international marketing. The fundamentals of marketing strategy remain the same. But, as explained in Chapter 4, once an entrepreneur enters the international market the complexity increases. Therefore, the entrepreneur and members of their entrepreneurial team must possess a range of skills: a degree of competence in cross-cultural understanding and multiple languages, have knowledge of specific inter-country differences, be attuned to global competition, and adapt to global economic power shifts.

Marketing Principles (4Ps)

We consider the tradition '4Ps' of marketing:

- Product
- Price
- Place
- Promotion

[Image HdV]

In particular, we examine how the international context may alter the entrepreneur's application of this marketing paradigm. While other recent definitions include **people**, **physical evidence**, and **processes** (also known as the 7P's), in this chapter we focus on the 4P's as the fundamental marketing building blocks for the international entrepreneur.

Understanding the Product: International Products and Services

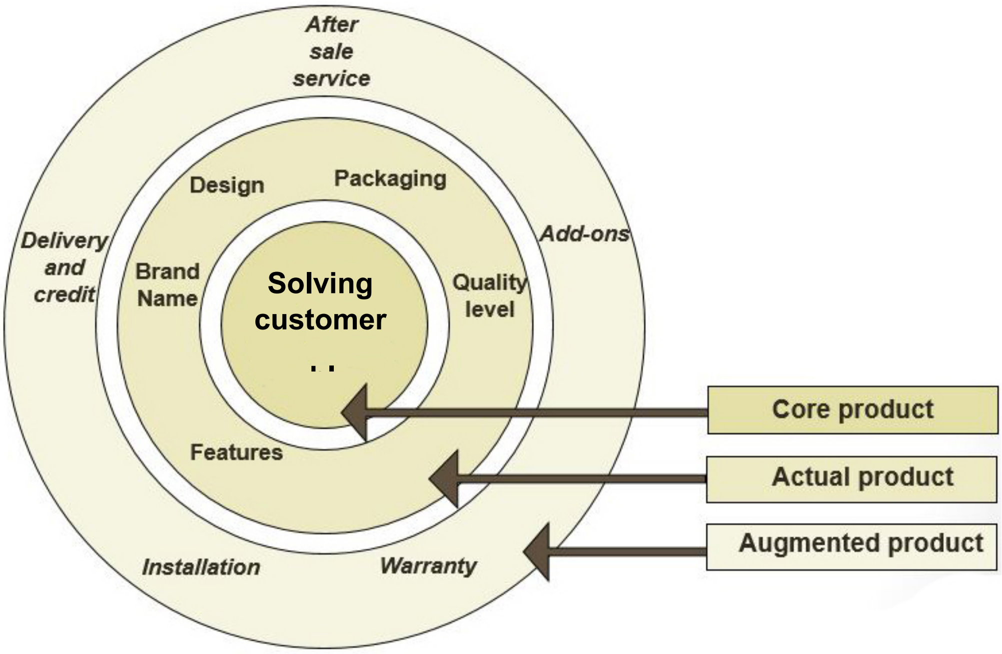
The basics: A product can be anything the entrepreneur's venture offers to a market. Simply put, a product (or service) can be defined as a bundle of attributes that satisfy a consumer's needs or wants. This bundle of attributes can be broken down into the **core**, **actual**, and **augmented** aspects of the product (Figure 6.1).

- ***Core Product**:* Addresses the issue of what the customer is actually buying. ***What problem is the entrepreneur solving for the customer?*** For example, a hotel offers guests more than just a room: by providing various items (a fluffy bathrobe, slippers and luxury body lotions) and services (spa and room services) it may solve their problem of wanting a 'pampered' travel experience (the core benefit). Likewise, an insurance company does not sell policies, it sells security against the unknown. In designing products, the entrepreneur should first define the core benefit(s), then build the actual product.
- ***Actual Product**:* This is what the entrepreneur actually produces. It includes the design, features, quality level, brand name, packaging and labelling. A hotel room is an actual product that needs to be presented. Hotels vary in terms of the range of features (budget accommodation versus plush pillows and extra sized beds) and their level of quality (in New Zealand, customers can determine a hotel's quality using the Qualmark five-star accommodation rating system). As depicted in the photo on the right, this core product was designed to satisfy the customer's hunger. The actual product was this incredible bagel. It was delicious!

Armagh, Northern Ireland
[Image HdV]

- ***Augmented Product**:* The entrepreneur should also consider additional consumer services and benefits associated with the product. Beyond providing accommodation, a hotel may offer business guests a complete solution, including services like courier facilities, business hot-decks, meeting rooms, a loyalty club and newsletters.

Figure 6.1
Product Attributes



Source: Kotler et al (1999, p. 201)

Lucca: A Historic Walled Italian Town

Lucca is a city that is built beside the Serchio River located in Italy's Tuscany region. A historic 4 km wall, dating back to the Renaissance, encircles its old town. Recently, during a visit to Italy, my wife and I chose to stay in the old town centrum. With its very narrow cobblestone streets and maze-like formation, tourists can find it difficult to navigate within the old town.

We planned to stay five days in Lucca and had booked a two-bedroom apartment for four people (the actual product), for what we hoped would be a memorable stay in the old town (the core product). As the accommodation owners are aware of how difficult it is to navigate from the railway station to the accommodation in the old town centrum, they couriered us in their private car to and from the accommodation (the augmented product). This service added to the memorable experience that was Lucca.

Lucca town centrum – an oval plaza ringed by medieval houses
[Image: HdV]

International Context for Product

An entrepreneur must ask question such as:

- What product(s) should their company launch when first entering a new market? This refers to the length and breadth of the product mix and the product attributes (core, actual and augmented)? This will probably be very different from their domestic market and vary between countries. This leads to other questions:
    - How and when should they expand their international product lines?
    - What new products should be introduced and old products dropped? Remember, a marketing strategy is equally about 'what you do' and 'do not do'.
    - Will they establish local or global brands?
- These questions must take into account the new markets: the pricing spectrum, the nature of the competitive climate, the history of the entrepreneur's product lines, potential product piracy in new markets, cultural differences, and even country-of-origin stereotypes. For example, while New Zealand has an international reputation for quality food production, it is also considered to be a country that is small and isolated.

Understanding Place: International Distribution and Logistics

Place refers to how an entrepreneur constructs and manages the systems that control the flow of product(s) from their business to the end user (the consumer). Simply put, it refers to an entrepreneur's/company's ability to ensure that the right products are available in the right place at the right time for the right consumers. An understanding of logistics is vital as there are significantly different transport systems in countries around the world.

Logistics: Regional Transport Systems

Countries have different freighting systems. While rail and road are commonly used for inland logistics, many European and Asian countries use river transport systems.

Yangtze River, China

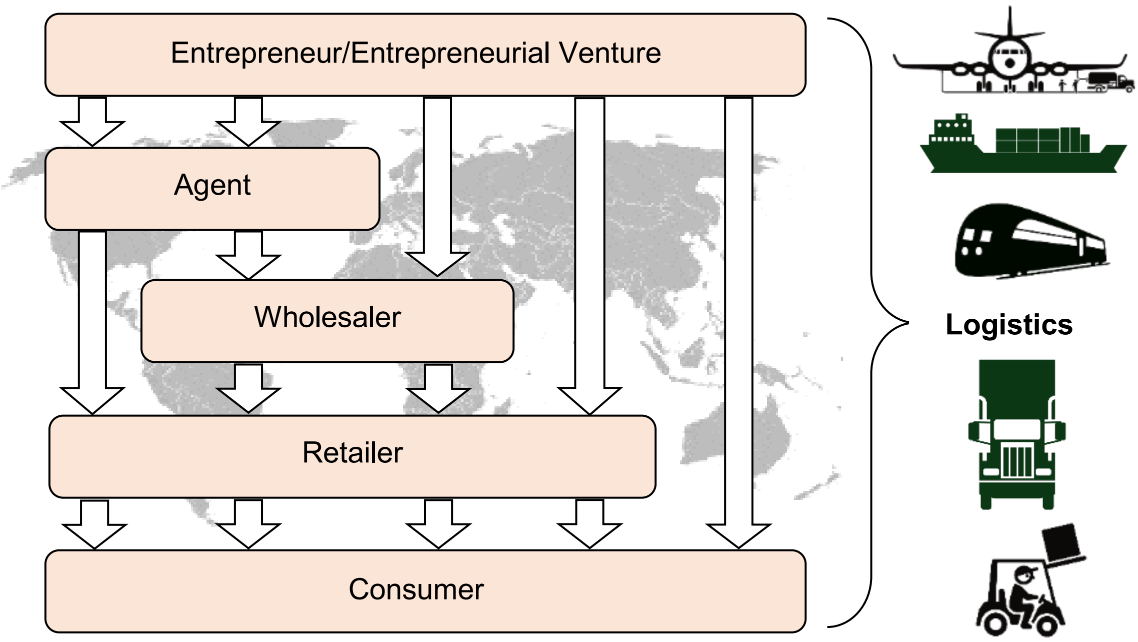
Waal River, Netherlands

Danube River, Austria

[Images: HdV]

While an entrepreneur may engage directly with the end consumer, in a complex global marketplace this is not always practical nor cost effective. Commonly, they use intermediaries such as agents, wholesalers, and retailers as part of their distribution channels (Figure 6.2).

Figure 6.2
Distribution Channel Alternatives



International Context for Place: Entrepreneurs can enter international markets in various ways. Methods and modes of overseas operation are dependent on the entrepreneur's objectives. There are three broad categories of engagement that influence the distribution strategy: exporting, non-equity arrangements, and direct foreign investment (Table 6.1).

Table 6.1
Entering International Markets

Entry Mode	Examples	
Exporting		
Indirect or Direct	The entrepreneur can sell and ship the products they manufacture in one country to a customer located in another country. The **Hulshof Royal Dutch Tannery** was founded in 1876. The company is one of the largest European producers of high-quality upholstery leather, processing thousands of hides every week. This production is supplied almost exclusively to the different world markets within the furniture and aviation industry. Source: http://www.hulshof.com/  [Image: HdV]	**Advantages**: Ability to realise location economies and experience curve economies. **Disadvantages**: (1) High transportation costs. (2) Trade barriers. (3) Problems with local marketing agents.
Non-equity Arrangements		
Licensing	An entrepreneur who is a manufacturer (licensee) gives a foreign manufacturer (licensor) the right to patent, trademark, use their technology, production process or product, in return for a royalty payment. La-Z-Boy Incorporated is a furniture manufacturer based in Michigan, US. The company employs more than 11,000 people. La-Z-Boy holds US and international patents for more than 200 different styles and mechanisms and licenses these to manufactures in other countries: for example, La-Z-Boy Germany GmbH and Morgan Furniture in New Zealand.	**Advantages**: Low development costs and risks. **Disadvantages**: (1) Lack of control over technology. (2) Inability to realise location and experience curve economies. (3) Inability to engage in global strategic coordination.
Franchising *	An entrepreneur's successful business concept can be *'cloned'*. Under business format franchising, the entrepreneur sells their unique business system under a trademark to an individual, and in return receives some form of payment and conformance to quality standards.	**Advantages:** (1) The opportunity for rapid expansion with low capital investment. (2) It assumes that franchise unit owners will be highly motivated. (3) The franchise unit owners must meet contractual obligations.

	McCafé is a coffee-house-style food and drink franchise chain owned by McDonalds, Illinois, US. Created and launched in Melbourne, Australia in 1993 by McDonald's Licensee Ann Brown, the chain reflects a consumer trend towards espresso coffees. **Chapter Seven covers franchising in greater detail.**	**Disadvantages**: (1) The entrepreneur only receives a percentage of the profits. (2) It is difficult to introduce change. (3) Franchise unit owners are not employees so it can be hard to exercise control over them.
Direct Foreign Investment		
Joint Ventures (Minority Interest)	These can take many forms, but traditionally the entrepreneur's firm and a firm from a different country agree to work together and form a third company in which they share equity. Volkswagen Group China is the largest, international partner in China's automotive industry. Its first joint venture in China, Shanghai Volkswagen Automotive Company Ltd, was established in October 1984. The second joint venture, FAW-Volkswagen Automotive Company Ltd. was established in Changchun in February 1991.	**Advantages:** (1) The entrepreneur has access to the local partner's knowledge. (2) They share the development costs. (3) This is often much more politically acceptable in some countries. **Disadvantages**: (1) Lack of control over technology or intellectual property. (2) Inability to engage in global strategic coordination.
Wholly Owned Subsidiaries or Majority Interest	The entrepreneur owns over 50 percent of the equity in a business in a foreign country. These can include mergers, acquisitions, or the creation of a new division. IKEA is a Swedish founded, Dutch multinational conglomerate, which designs and sells ready-to-assemble furniture such as beds, chairs, desks, appliances, and home accessories. As of January 2021, IKEA had 378 stores in 50 countries. IKEA's flagship store opened in Stockholm in 1965.  Stockholm, Sweden [Image: HdV]	**Advantages:** (1) The entrepreneur can better protect their intellectual property. (2) Able to engage in global strategic coordination **Disadvantages**: (1) High establishment costs. (2) Greater financial risks.

Understanding Price: International Pricing

The Basics: Price is the amount charged for a product or service, or the sum of the value that consumers exchange for the benefits of having or using a product or service (Kotler et al, 1999). Put simply, price is the amount that an entrepreneur charges for some value offering.

Factors to consider in setting a pricing strategy:

1. **Pricing Objectives** – These could be profit-oriented target returns or profit maximisation; sales-oriented growth or market share; or status quo to meet or avoid competition.
2. **Demand and Competition** – These factors may change during the product life cycle. Changing pricing strategies can include skimming, penetration, and competition pricing.
3. **Cost** – There must be something in the exchange for the entrepreneur! They need to understand fixed costs, variable costs, and break-even analysis.
4. **Mark-Ups in Distribution Channels** – Products are often sold to channel members instead of to final customers: for example, a furniture manufacturer who sells to a retailer who on-sells to the end user, the consumer.
5. **Discounts and Allowances** – While most products have a basic 'list price,' entrepreneurs may offer various discounts and allowances based on participants circumstances such as high purchase volumes, seasonal adjustments, payment terms, introduction incentives, and end of line reductions.
6. **Geographic Pricing Terms** – Distance, time, and method of delivery, insurance, handling, and other logistics charges will mean different cost structures for different regions. The entrepreneur must consider who will bear any logistics costs. Options include uniform delivery pricing, free on board (FOB), zone pricing, or freight absorption pricing.
7. **Legal Environment** – In many countries, laws protect consumers against price fixing, misleading pricing, bait pricing, resale price setting, and price discrimination.

International Context for Place: The entrepreneur who wishes to set prices in another country will need to consider a further range of other factors in their pricing strategy:

- **Taxes, Tariffs and Administrative Costs** - An entrepreneur must consider the absorption or passing on of these costs.
- The impact of **inflation or deflation**, and varying **currency values** and **exchange rate** fluctuations on pricing, profit margins and competitiveness.
- **Middleman and Transport (Channel) Costs** - Even with internet marketing, there are logistical costs associated with producing/purchasing, warehousing, packaging and delivering all physical products such as clothing (Ezibuy), electronics (Geekstore), food (Uber Eats), and books (Amazon).
- **Dumping or Price Differentiation** - The entrepreneur may consider introducing their product(s) to a new market at less than the normal price in their home country, a practice known as price differentiation exists. There are anti-dumping laws in some countries.

- **Countertrade** - This involves the entrepreneur agreeing to trade their products in another country without direct monetary payment. Forms can include simple bartering through to counter purchases.

Source: Adapted from Kotabe et al (2011)

Exercise 6.1: New Zealand Kiwifruit Exports

In 2015, South Korea was a major market for New Zealand kiwifruit. However, New Zealand producers had to pay 45% tariffs to sell in the Korean market. What makes this example so significant is that many competitors already had free trading agreements in place, such as Chile, whose tariffs had been progressively reduced to 0% by 2021.

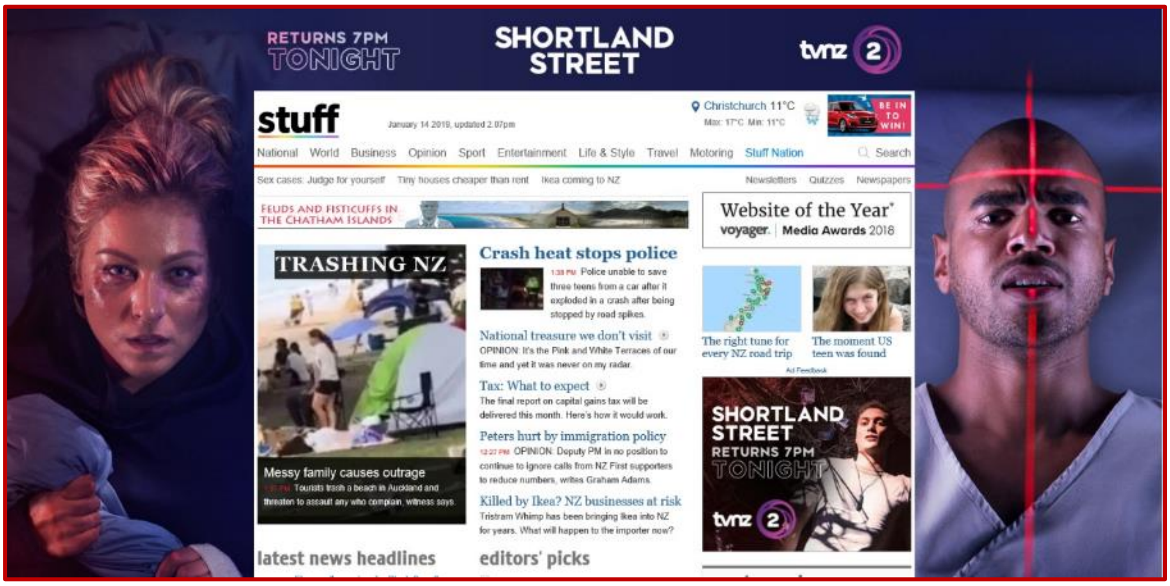
[Image: HdV]

Question: What options do the New Zealand grower/exporters have in this situation?

Understanding Promotion: International Marketing Communication

The marketing communication (or promotional) mix refers to the mechanisms an entrepreneur uses to communicate with his/her customers. The specific mix s/he uses is contingent on his/her marketing strategy in regard to product, price, and distribution. Options include:

1. ***Advertising**:* Any paid form the entrepreneur uses to present or promote ideas or products through an identified sponsor. The objective is to inform and persuade the advertisement's audience to accepts their products.



Shortland Street: Creating awareness of the new session of this television soap on a news site.

Source: https://www.stuff.co.nz/

2. ***Product Placement:*** The strategic location of products or the promotion of the product within others forms of entertainment like movies and videogames, with the objective of reaching the entrepreneur's target audience.

Product Placement in Movies

Some of you may be old enough to remember Michael J Fox's character Marty McFly asking for a Pepsi in the 'Back to the Future' movie franchise or Adam Sandler in Little Nicky eating Popeyes' Chicken. More recently, you may have noticed that the German car manufacturer Audi has chosen to advertise its products in the Marvel Avenger franchise.

3. ***Public Relations (PR):*** The entrepreneur strives to create and maintain a favourable relationship between themselves (and/or their venture) and their stakeholders. Entrepreneurs should consider implementing a long-term image building strategy. Richard Branson, for example, has built his personal image as a successful businessman, adventurer, and philanthropist over several decades.
4. ***Sponsorship:*** This is a commercial agreement between the entrepreneur (sponsor) and another party (sponsee). The entrepreneur will invest, usually cash or products, into the sponsee's activities to gain recognition and favourable acknowledgement. Entrepreneurs can sponsor a person(s) or an event.
5. ***Personal Selling:*** This term refers to direct personal spoken communication that occurs between an entrepreneur or members of their team and potential customers. This communication can take place in a variety for ways: face-to-face, via Skype, Zoom, or by telephone.
6. ***Sales Promotion:*** This term includes any promotional techniques not already discussed that induces employees (or intermediary salespeople) to sell a product, or a consumer's desire to buy it.
7. ***Digital Marketing:*** Communication elements which rely on digital technology.

Social Marketing

Wildfire, founded in 2008 in Silicon Valley, is a social marketing application that enables businesses to create, optimise, and measure their communication on social networks like Facebook, Twitter, Pinterest, and YouTube. Founded by New Zealander **Victoria Ransom** and her Swiss partner Alain Chuard, the start-up was acquired by Google in 2012 for a reported $450 million.

International Context or Promotion: To a large extent, promotion has a cultural context. When the promotional appeal is at odds with the cultural context in which it is delivered, then the entrepreneur's marketing campaign may stall or completely fail. The entrepreneur must ensure that any promotional activities:

- Can leverage the local cultural context *(See Hofstede's Dimensions in Chapter One).* Nevertheless, as previously mentioned, the entrepreneur must be careful not to fall into the trap of cultural stereotyping.
- Be sensitive to religious and political norms and values.
- Overcome language barriers and norms regarding offensive language.

There is also much debate around standardisation versus adaptation in relation to advertising campaigns. For global marketing campaigns, there is a strong case for standardisation with regards to economies of scale, consistency of image and brand presence, and the rise of the 'global village'. Yet factors such as market maturity, cultural differences, and advertising regulations may mean an adaptive approach is more appropriate.

The Impact of Technology on Marketing Strategy

The good news for the entrepreneur is that, to some extent, technology can level the playing field when competing with much larger organisations in the international market. It is beyond the scope of this text to detail the ever-evolving technology that is available to the entrepreneur. However, it should be noted that with the downward trend of technology costs, for a modest investment in computer and telecommunications equipment, the entrepreneur's venture can rival the marketing tactics of much larger companies. Secondly, as technology affects all aspects of the venture, at the level of R&D and operations, there is an opportunity for small businesses to engage in mass-customisation; this can take their marketing strategy to the next level. By mass-customisation, we mean the techniques that enable an entrepreneur to produce a broad range of product variations to serve different markets, preferences, and requirements.

Mass Customisation

An entrepreneur who produces shoes competes against large mass producers by offering customers an online design tool that enables them to apply options, colours and art to base shoe models. The entrepreneur then utilises a highly automated production system that produces the customer's unique design specifications at certain stages in the production process.

[Image: HdV]

Evaluating International Business Opportunities

An entrepreneur involved in international business must consider which market/s to enter, who to trade with, and the best time to make such a move. Hisrich (2010) provides a useful technique to systematically rank the foreign markets being considered and to valuate foreign clients, partners, and/or suppliers. Why is this important? First and foremost, employing a ranking system can reduce the risks for the entrepreneur. It is not enough to rely on self-confidence, domestic assumptions, and 'gut feelings.' By using rankings, an entrepreneur can consider patterns and trends and make appropriate decisions. However, it is crucial to have data that covers at least three or four years.

Hisrich (2010) offers an example of a selection model:

Singapore is ranked by the World Bank as second for the 'ease of doing business'

[Image: HdV]

1. **Development of Appropriate Indicators**:

   Overall market indicators (population, per capita income, product consumption, and industry profitability); market growth indicators (GDP and particular market growth rates) and production indicators (number of sales leads and interest).

2. **Collection of Data and Conversion into Comparative Indicators**:

   While an entrepreneur can use secondary data such as international and regional (often statistical) data, they must be aware of the availability, comparability, accuracy, and cost. Secondary sources can include: Government agencies, Trade associations, Trade publications and periodicals, Company information, International databases, Journals and newspapers

   Primary data can include: personal interviews and internal company indicators.

3. **Establish an appropriate weight for each indicator**: These weights reflect the importance of each indicator in predicting foreign market potential (for example, the number of schools may have a high rating for a book publisher). The selection of indicators and the assignment of weights will vary greatly from one entrepreneur to the other, or one venture to another. *(See 'World Bank' Ease of Doing Business in Chapter Two)*

4. **Analyse the data**: The entrepreneur must scrutinise this data carefully and look for errors. 'What If' analysis should be used to change some weights and see how the results vary. *(See 'World Bank' Ease of Doing Business in Chapter Two)*

5. **Select the appropriate market from the market rankings**: This enables an entrepreneur to select an appropriate entry strategy and develop a marketing plan.

Source: Adapted from Hisrich (2010)

Note: Such evaluation techniques are not the exclusive domain of international marketing. They can also be used to evaluate suppliers. This fact is important because when we consider the core, actual, and augmented characteristics of a product, failures at a supplier level (such as poor-quality goods or an inconsistent supply), can impact negatively on some, or all, of the characteristics and undermine or derail a promotional campaign.

Ravensdown: Evaluation of Suppliers

Ravensdown manufactures and supplies fertilisers to the New Zealand agricultural sector. It directly imports raw materials and products from 50 suppliers in 22 different countries. Chad Gillespie, their Procurement Manager, explains how they evaluate all of their overseas suppliers: *"We've got pretty strict criteria. It goes back to understanding clearly what our business requirements are. We evaluate across five main areas. Firstly, customer service - how responsive are they, and do they stand behind the product if we have an issue. Secondly, commercial - are we paying a competitive market price with fair review mechanisms in place, what are the payment terms and other particular terms and conditions. Thirdly, innovation - so, are they investing in technology and infrastructure, and is there any 'shared value' to help sustain our competitive position in our marketplace? We look for quality and delivery' and lastly, compliance. Compliance is evolving, and among other things, considers legal, environmental, health and safety, biosecurity risk, ethics and human rights. So, we basically have it pretty clear in terms of what we want, and we review performance every six months. A scorecard is produced [with weightings in each of the five areas] and each supplier is rated so we can tell them how they are going."*

CEO Greg Campbell explains further, *"What we then do is we take every supplier and graph it. And we end up with the top end being what we call a 'trusted partner', right down to 'we won't deal with you today.' Chad adds, "So if they are not up to scratch some areas will have mandatory corrective actions and may be recommended improvements."*

Chapter Summary

International markets present additional complexity for the entrepreneur. This chapter has discussed the international context from the perspective of the 4Ps of marketing: product, price, place, and promotion. Key 'take homes' are:

Product is what the entrepreneur's venture offers to a market. In the international domain, the entrepreneur needs to contemplate differing product lines, cultural differences, and country perceptions.

Place is the venture's distribution system that controls the flow of product(s) from the business to the end user. There are three broad categories of engagement with the international market which influence the distribution strategy: exporting, non-equity arrangements, and direct foreign investment.

Price is the amount charged for a product or service. A range of international factors can influence a price. These include: trade regulations, inflation, channel costs, and pricing strategy.

Promotion is the marketing communication mix the venture uses to reach and inform the customer(s). Options include, culturally responsive advertising, product placement, public relations, sponsorship, personal selling, sales promotion, and digital marketing.

Chapter 7: Entrepreneurship and Franchising

A new franchise business opens once every eight minutes. Forty cents of every retail or service dollar spent by consumers is spent in a franchised business

This chapter examines **business format franchising**. It explores how franchising works, what constitutes a suitable national and international franchise opportunity, the franchisor's perspective, the franchisee's perspective, and franchise development. This chapter focuses on two key players: the **franchisor** – the owner of the unique business system and the **franchisee** – the purchaser of a franchise unit from the franchisor.

The International Context of Franchising

The pressure on entrepreneurs to seek out foreign markets to increase sales of their products and services has heightened interest in international franchising. In the latter half of the 20th century franchising became a proven and acceptable method of distributing products and services for both domestic and foreign markets.

Economic historians suggest there are maturation cycles in any business, in specific industry sectors, and in the history of nations. The cottage type or Mom-and-Pop businesses that evolve into a national enterprise, typically achieve a level of saturation in domestic markets and, usually when the technology and the capital of the enterprise permit, attempt to extend their success beyond national boundaries. This example illustrates the pattern of contemporary franchising.

The global footprint of Coca Cola (Wuhan, China).
[Image: HdV]

In his preface, Konigsberg (2008) outlines a number of factors which support the growth of international franchising:

- The search for growth abroad as many companies reach saturation in their home markets. Businesses may also face increasing competition from other franchises or struggle to find desirable locations.
- The growth of discretionary income in regions such as Asia, Australia, and the Americas.
- The growth of the service economy in developed and developing countries such Europe and Asia, where franchising is particularly suited.

- The growth of female entrepreneurs, for whom franchising represents an effective means of business ownership or expansion of an existing business.
- Recent experiences would suggest that while franchising does well in good times it may also may be better positioned to hold steady above the down curve in bad times.
- The internet, television, and ease of travel mean that consumers around the world are familiar with many products and services available elsewhere.
- Many companies who are not involved in franchising domestically are now looking to franchising as a vehicle for their international expansion.

While the expansion of international franchising has not been as explosive as domestic franchising to date, it is nevertheless significant and growing rapidly. Certainly, the increase in 'Free Trade Agreements' globally, and the work of the World Trade Organisation (WTO) and G8 to reduce trade barriers and restrictive regulations will continue to fuel the growth factors (highlighted above) for international franchising.

Despite its attractiveness, franchising on an international level is also fraught with difficulties. A great deal of care and thought, as well time and money, must be committed for an entrepreneur to make a meaningful decision to export their business through the franchise model. It is important that we first understand the fundamental principles of franchising and, in particular, the 'business format franchising' model.

Source: Adapted from Konigsberg (2008)

What is Franchising?

Franchising can be defined as:

> *A business opportunity by which the owner, producer or distributor of a service or product grants exclusive rights to an individual for the local distribution and/or sale of the service or product, and in return receives some form of payment and conformance to quality standards.* (Judd & Justis,1989, p. 6)

While there are other ways of defining franchising, all definitions include the following elements: the **franchisor,** the owner of the unique business concept, who provides the know-how, trademarks, business support, training and development, and trading area exclusivity to **franchisees** (people wishing to invest in their own business who are often relatively inexperienced) in return for royalties, other payments, and compliance to the franchise's rules and standards.

Not all these characteristics need to be present for a business arrangement to be regarded as a franchise. Internationally there are three main types of franchising:

- **Product Franchising**
- **Manufacturing Franchising**
- **Business Format Franchising**

These categories are not always mutually exclusive. Each of these formats is discussed below.

The Cincinnati Reds baseball franchise, USA

[Image: HdV]

Product Franchising

When using a product franchising system, a company (known as the distributor) becomes an outlet for a particular manufacturer's products. The distributor will often have an exclusive right to sell the product within a specific country or territory. Examples of product franchising systems include motor vehicle dealerships (for example, Toyota dealerships) and petrol retailers (for example, BP).

Manufacturing Franchising

In this form of franchising, the company that has propriety over a product (the franchisor) supplies raw materials and/or specialised knowledge to another company (the franchisee), who manufactures and distributes the finished product. The soft drink and alcohol industries are common examples where independent bottlers produce a product under a franchising arrangement: Coca Cola is an example of this type of franchising.

[Image: HdV]

Business Format Franchising

The third type is business format franchising. Here a company with a unique business system (the franchisor) markets the business or product under a trade name and sells the rights to individual business owners (the franchisees) who run these businesses under prescribed standardised procedures. Business format franchising is additionally characterised by ongoing support and training from the franchisor, and the standardisation of all franchisee outlets. This form of franchising is readily found across a wide range of industries such as fast food, retail, real estate, business services, education, construction, and media.

The majority of franchises operating today are **business format franchises,** and is the type of franchising we will focus on in this chapter.

Business Format Franchise. US based Supercuts franchise in Birmingham, UK

[Image: HdV]

Does Franchising Have the X Factor?

In the media industry a production company creates a television format and then sells that format to other countries.

The British television programme Supernanny (2004) is a prime example. The programme screened in 47 territories and the producers, Ricochet, sold the format to numerous countries – Poland, France, Germany, Brazil, the Netherlands – where they used the same basic formula but had their own 'local' families and 'experts'. Other similar cases include Pop Stars, X-Factor and America's Got Talent.

This chapter focuses on **business format franchises** as these are the most common form of franchise business.

Business Format Franchising: Why Franchise?

Have you ever wondered why some companies franchise and others do not? Consider New Zealand's discount retailer The Warehouse or the window repair and replacement company Ace Autoglass which are fully company owned. Both organisations have many outlets spread throughout New Zealand. Now consider companies such as Hammer Hardware (a hardware retailer) and Novus Autoglass (glass repair), both of which are examples of franchised organisations within New Zealand. Now let us also consider two iconic international examples (Exercise 7.1).

Many different types of businesses can be franchised: pizza or ice-cream parlours, real estate companies, and car washing businesses. Other examples include tutoring services, pharmacies, bookkeeping, gymnasiums, commercial cleaning businesses (the list goes on!). These have all been successfully franchised. There are also some businesses which are less suitable. Examples where it may not be practical to do so include industries like those which require high level qualifications and skills, and dealing with the unknown such as complex medical procedures.

The Rationale Behind Franchising

In effect, franchising is the *'cloning'* of a business. This practice enables the entrepreneur to replicate the business' success and facilitates expansion domestically and/or internationally. The success of franchising relies on the mixture of both the franchisor and franchisee's inputs. In short, a business must be capable of being replicated.

An entrepreneur must first consider why they want to franchise their business. Is it solely because they lack the necessary capital to expand? If so, then they may need to re-think their decision, as alternative sources of capital are available – for example, loans, venture capital, and IPOs.

Is it because they want to achieve rapid market penetration or first mover advantages? Or is it because franchisees are more motivated to succeed than employees? The best reason for wanting to franchise is to make an already successful business even more successful.

Exercise 7.1: Corporate or Franchise Business Models?

Starbucks Corporation is an international coffee chain. Its head office is located in Seattle, US. With 32,660 stores in 83 countries, including 18,354 in the US, Canada, and Latin America, Starbucks is the largest coffee-house company in the world.

Source: https://en.wikipedia.org/wiki/Starbucks

Costa Coffee was founded in 1971 in London, UK, by the Costa family. The Costa franchise is the UK's largest and fastest growing coffee shop franchise. There over 3400 Costa coffee shops in 31 countries. Even though it was bought by the Coca Cola group in 2019, its mission has remained the same, to rid the world of mediocre coffee.

Source: https://www.whichfranchise.com/non_ad_basic_details_template.cfm?companyId=2393

Question: What other types of businesses run equally successfully as corporate or franchise business models? What types of businesses would not be suited to franchising?

Starbucks Coffee, Christchurch.
[Image: HdV]

Advantages and Disadvantages of Franchising

Like any business model, business format franchising has advantages and disadvantages that an entrepreneur, who will become the franchisor, needs to consider. These need to be carefully considered to determine whether franchising is the best means to deliver on the entrepreneur's vision, objectives, and values.

The franchisor: Advantages associated with franchising

- Business format franchising can be used to increase the number of distribution units (franchises) with a minimum capital investment required. This practice minimises and spreads the risk for the entrepreneur.
- The manager (franchisee) of each unit is assumed to be highly motivated to increase turnover and maximise profits, or at least more than an employee manager who has a fixed salary and no personal investment in business.
- Locally owned units give the business format franchise organisation access to local knowledge and are thus more likely to be accepted by the local community. However, this may not always be the case. Consider the example in Exercise 7.2.
- Franchisees are self-employed which reduces the franchisor's administrative and overhead expenditure.
- Franchisees are contractually tied to the franchisor. They are often obliged to purchase equipment and/or supplies through the franchisor and to conduct business based on strictly developed business processes. These practices give the franchisor some control over the organisation's operations.

Exercise 7.2: Local Franchise

Liquorland is a wine, beer and spirits retailing franchise formed in 1981. At the beginning of 2020 there were 130 stores around New Zealand.

Since 1999, New Zealand's alcohol laws have become increasingly liberalised, with a reduction in the drinking age (to 18 years old), changes to the alcohol licensing which means that supermarkets can now sell beer and wine and the approval of suburban liquor stores. These changes have enabled the rapid expansion of franchise and corporate liquor stores. This proliferation of access to alcohol has heightened community concern regarding alcohol abuse. Local communities have engaged in activism to prevent the spread of small liquor stores in suburban areas of major cities, often opposing planning consent for the opening of stores close to their homes.

Question: Why may Liquorland find it hard to gain community acceptance when establishing new franchise units in suburban New Zealand?

The franchisor: Disadvantages associated with franchising

- Franchisees only pay a percentage of the profits to the franchisor, which means that the franchisor receives less profits than if the unit was company-owned.
- As franchisees are NOT employees it may be difficult to exercise tight control over them, beyond contractual obligations. Provided the franchisees are operating within the terms of their contract, the franchisor has very little ability to ensure the franchisees operate more efficiently or effectively. It can thus be difficult to improve the performance of franchised units.
- It can be difficult to ascertain the exact level of business activity, particularly if the franchisees do not declare their true levels of income.
- Business format franchises are often unable to quickly modify strategies to exploit new market opportunities.
- The franchisee's desire for independence (as highlighted in the E-factors) may inhibit information feedback and clear communication.
- It may be difficult to recruit ideal franchisees (this is discussed in further detail later in this chapter).
- Franchises are unable to (easily) localise operations or provide personal attention and service, whilst still maintaining the standardised products and presentation needed to give customers a sense of consistency, reliability and dependability (which is the strength of effective franchising).

Reliability and Dependability

Several years ago, my sister travelled through Poland for a couple of weeks. She and her friend did not know any Polish and were scared of eating at the local restaurants as they did not know what they would find on their plates. Hence, for the duration of their trip pretty much every meal they ate was from McDonalds as they knew what they would receive even if they did not understand the language. (Rebecca Kambuta)

What Makes a Business Format Franchisable?

Entrepreneurs should consider the following criteria before deciding to franchise:

Recognisable brands need to stand out.
Times Square, NY
[Image: Hdv]

- The business should have a unique value proposition:
    - *Either a unique product, service or system of operation, which sets it apart from others in the industry; and that is proven to be successful in practice.*
- The system should be easy to follow but not so easy that it can be copied.
    - *How easy is it for competitors to start-up and mimic/copy the concept?*
- The business should be well-established, have strong trade, and a recognisable brand name.
    - *Can the business secure trademark registration, and/or patents domestically/ internationally?*
    - *Has the business been tested for receptivity and public image in national and/or international markets before franchising?*
- The practices and system of a business format franchise should be capable of being taught to inexperienced operators within an economically viable timeframe.
    - *Are there any technical, cultural or language barriers?*
- The franchisor must be capable of exercising control over franchisees.
    - *For instance, many franchises have a system of Master Franchisees because of the geographical distances involved. This is even more important for international franchising.*
    - *Are there any country specific geographical, technical, cultural or language differences that could adversely affect operations?*
- The business must be profitable with sufficient return on investment and labour to make it attractive to franchisees.

  - *The franchisee must also earn enough to be able to pay the franchisor's fees for the services supplied and have an adequate return for themselves.*
  - *Overall, the franchise business must deliver enough fees to the franchisor to cover the overhead costs and make a worthwhile profit.*

- The price of purchasing a franchise unit must reflect the market value:
  - *Lower start-up franchises are easier to sell than high-cost franchises.*
  - *However, this can be country specific.*

The Franchise Model

Consider people like New Zealander **Bill McGowan** who expanded **Fastway Couriers** from its origins in 1983 as a rural courier service to an international courier franchise (it now operates in New Zealand, Australia, South Africa, and Ireland). Or **Fred DeLuca**, founder of **Subway**, who borrowed $1,000 from friend Peter Buck to start "Pete's Super Submarines; and **Yves Rocher**, the successful French **cosmetics manufacturer**, who used franchising to expand her business.

They all had a vision of what they wanted to achieve in their organisations and they chose franchising as the vehicle for that development.

The Development of the Franchise Organisation: The Basics

Many franchisors are true entrepreneurs who have built large franchise networks from humble beginnings in counties as diverse as the US, France, and New Zealand.

So where did they start? They began by identifying a ***gap*** in the market and creating a niche market. For example, Bill McGowan from Fastway Couriers (NZ) recognised a gap in the market for low-cost courier-van services, so he set about satisfying that need.

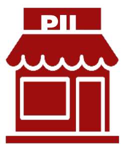
Making the transition from an entrepreneurial single-unit or single-entity firm to a multi-unit professionally managed franchise system requires the entrepreneur (franchisor) to make several transitions in the organisation's development:

- The establishment of a **pilot** operation to test the franchisability of the business.
- The development of **operation manuals**, which document systems, procedures, and procedures.
- The identification of franchise **territories** or selecting possible **sites**.
- The development of an effective franchisee **recruitment** process.
- The provision of **initial support** given to franchisees to help them start the business.
- The provision of **ongoing support** to ensure quality and uniformity in the system, and to assist franchisees to develop their businesses.

- In addition, the franchisor will provide ongoing **marketing activities** to promote the franchise model, individual franchise units, and the network as a whole.
- Charging of ongoing franchise **fees** to enable the profitable maintenance and growth of the business format franchise.
- The provision for franchisee and franchisor's rights and obligations are set out in the **franchise contract**. In essence, signing this is *'the moment of truth'*. Whilst **Master franchising** involves a specific type of franchisee management contract.

We consider each of these elements individually below.

Pilot Operations



Like most business ventures, there can be pitfalls associated with setting up a franchise.

- In franchising the wrong way is to think of a concept and franchise it immediately. This is dangerous because the concept is untested and may not be successful. Both the franchisor and franchisees may end up losing money.
- The right way is to franchise an established and successful business, one that has been operating for at least 12 months.

This is the pilot stage of the operation. It will enable the entrepreneur to test whether the business has potential for expansion via franchising. At least one pilot outlet should be operated, although a number of outlets may exist when the decision to franchise is considered. The following are some points to note about running a pilot operation:

- The pilot operation should be similar in size, location and cost to the potential franchised outlets.
- This will enable the franchisor to experiment with various elements such as design, layout, branding, and equipment to determine the most suitable combination for franchising.
- The pilot operation will form the basis for developing the operations manual which will specify how the business is to be run.
- A pilot outlet can be retained for training or for research and development purposes when franchising begins.

The Operations Manual

The secret of successful franchising is being able to recruit inexperienced people and then train them to operate the business in a **professional manner** and according to a **standardised format**. Take a look behind the counter when you next go to a franchised food outlet like McDonalds, Burger Fuel, or Subway. You should notice a smooth operation taking place because the staff have been well trained and the system is simple, tried, and tested.

Operation manuals are at the heart of a smooth-running franchise. They are confidential documents and they form part of the franchisor's intellectual property. In essence, they contain *trade secrets.* These manuals are normally only shown to franchisees when they have signed the franchise agreement, including a confidentially clause, and begin their training.

The first aim of the operation's manual is to guide the **franchisee and/or their staff** through the business' day-to-day running. It also ensures that new franchisees will be trained and will operate their franchise units in the same manner across the network.

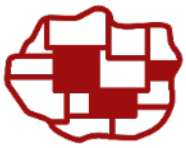
Mendelsohn (1999, pp. 68 - 70) offers guidelines about what might be included in an operations' manual:

1. **Introduction**: Explains the fundamental nature of the franchise business and its underlying philosophy. It will also spell out what the franchisor and franchisee should expect from each other.
2. **Operational System**: A very detailed description of the franchise's operational system. This should explain how the operation is set up, and how and why the various essential elements fit in with each other.
3. **Equipment**: This entails a detailed explanation of the equipment, its function and its operation. This section should also include information about how to deal with common faults which are likely to develop. It should also contain a directory of supply and service centres for the equipment (see 6 below).
4. **Operating Instructions**: In most cases, this section of the manual will be broken down into a number of subsections such as **staffing** (for example, staff schedules, standard procedures and training procedures); **trading** (for example, pricing policy purchasing policies, stock control); and **finance** (for example, cash control, accounting records, and reporting).

Costa Coffee, New Street, Birmingham, UK
[Image: HdV]

5. **Standard Forms**: This section contains various standard forms that will be required to carry out the daily operations, and also outlines how they can be accessed (for example, via the franchise intranet).
6. **Technical Supplement**: This section provides more detailed information about the equipment than found in the operational methods section.
7. **Contact Directory**: This is a who's-who of contacts within the organisation for the franchisee. It explains who the franchisee should contact if they have any questions about a particular aspect/s of the franchise business. The directory will also contain useful telephone numbers, websites, and email addresses which a franchisee may need, such as suppliers and technical services.

Franchise Territories



Many franchisors offer franchisees established territories or exclusive sites. The rationale for this approach is that it will give the franchisee confidence that they can operate profitably and not be hamstrung by a saturated market of competing franchisees. Once a franchisor decides to enter a new country or local area, decisions will be contingent upon the type of franchise business, market in which they operate, and geographic and demographic considerations.

Common examples are lawn mowing franchise units which include geographically exclusive territories and professional services which provide exclusive client lists for a specific region. Let us consider an English lawn mowing franchisor looking to franchise in Ireland. They may start by dividing it into territories which they would consider profitable and then search for franchisees to operate within these areas. Some franchisors take the opposite approach: they build territories around approved franchisees.

Other franchises that have fixed retail sites, like grocery stores, cafes or fast-food outlets, do not have exclusive territories. However, as noted above, it is in everyone's best interests to place outlets in locations that will optimise market penetration and franchisee profitability. Franchises located in shopping centres will generally find that their landlords will attempt to maintain a balanced tenant mix. However, franchisees should examine the terms of their leases to ensure they are not subjected to damaging competition.

Costa, Singapore, Chevron House, Singapore
[Image: HdV]

Mobile franchises are generally given a defined operating area. Franchisors of mobile systems often give a franchisee a reasonably large geographical territory so they have the scope to build up their business and establish a good customer base. Once established, some franchisors will allow franchisees to divide their territory and sell a part of it to a new (franchisor approved) franchisee.

Franchising Recruitment and Selection

Irrespective of how good a franchisor's operations and systems are, the franchise will suffer if the wrong franchisees are selected. Finding the right franchisee is not a matter of luck or contingent upon their financial backing. Franchisee selection should involve a detailed and systematic procedure, the importance of which cannot be overstressed. Just imagine having a business relationship with an unsuitable franchisee for nine more years in a 10-year contract!

A useful exercise for a franchisor is to prepare a profile of their 'ideal' franchisee. The profile may include characteristics such as the preferred age group, gender, health, communication skills, prior background, family support, and financial status. The main objective of preparing a franchisee profile should be to select franchisees whose personal characteristics are compatible with the franchisor's goals.

In **Australia**, franchisees are most likely to be husband/wife teams or male sole owners, aged between 30 and 50 years. They typically remain in the franchise system an average of seven years. Franchisors have reported a shortage of suitable franchisee applicants. Most franchisors consider passion and enthusiasm (84 percent) to be the most important trait, followed by honesty and integrity (75 percent), ability or willingness to follow system guidelines (70 percent), communication ability (65 percent), and business/management or industry experience (50 percent). Source: Frazer et al. (2006)

While some well-established high-profile franchisors, like McDonalds, find prospective franchisees knocking on their doors, most need to actively recruit franchisees. Common methods of attracting franchisees are franchisor websites, franchising directory listings, franchising/business magazines, business brokers, franchising/business opportunity expos, and newspaper advertisements.

The Selection Process

A thorough process of franchisee selection is recommended. This process is outlined below.

Initial Contact	A person considering buying a franchise may browse franchise websites, view advertisements, and visit business expos. They can make contact with a representative of a franchise organisation in a variety of ways: via email, telephone, or in person. To answer enquiries, an organisation should provide basic information, brochures, and application forms in either paper or electronic form.
Application Form	A thorough application form provides a way to narrow down the list of potential franchisees, as the franchisor does not want to waste time interviewing unsuitable applicants. Typical information required can include personal attributes, financial position, previous experience, and why the applicant wishes to become a franchisee.
Interviews	This stage may include one or more face-to-face interviews (that is, an in-house meeting or via Skype or Zoom). This interview needs to be thorough to ensure that the applicant matches the franchise profile (external consultants may be useful at this stage). Questions should address any omission or concerns with the application form. It is also important to have one of the interviews conducted in the applicant's home and, if applicable, to meet with the applicant's partner, so as to better understand the applicant and to determine how much family support they have.
Post-Interview Check	To substantiate any important information that the applicant supplies, the franchisor must ensure that they verify any financial statements and educational qualifications. In assessing an applicant's character, a franchiser should not rely purely on written references provided by the applicant as most people will only invite referees they know will give a glowing report. A franchiser should contact people like previous employers, employees or colleagues. They should also check the applicant's electronic social media networks (for example, Facebook and LinkedIN).
Psychological Profiles	Even an experienced interviewer may have difficulty determining an applicant's real personality, as most people try to project the image they think the interviewee wants to see. To overcome this problem, the franchisor needs to develop an ideal franchisee profile which lists desirable characteristics. They can then ask a psychologist or trained consultant to prepare a psychological profile of an applicant (see the Qualities of a Franchisee sub-section) While this is not the only criteria, it provides an indication of the applicant's suitability for the franchise.
Trial Work Period	Where possible, a potential franchisee should complete a trial period. The benefits of this are two-fold: firstly, the franchisor can gauge the applicant's business fit; secondly, the applicant can see for themselves whether they are suited to the business.

Initial Support

One of the attractions of becoming a franchisee is being able to enter a business without having a background in the industry. Franchisees can operate under the 'umbrella' of an established and successful organisation. However, to achieve this, the franchisor must provide initial start-up support which will get the franchisee up to speed very quickly.

While most franchisors offer a variety of initial support services, the quality of the support varies considerably.

An Australian franchise study identifies the following common initial support as being offered by franchisors:

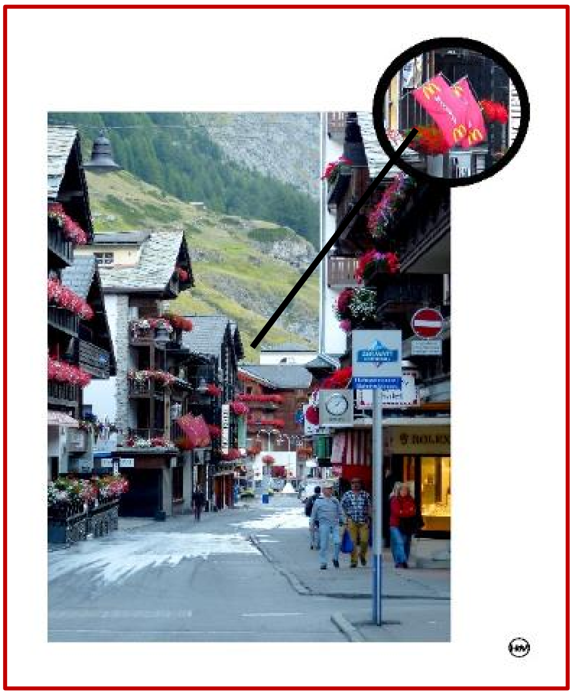
• Operations Manuals	95% of Franchisors
• Pre-Opening Training	94% of Franchisors
• Start-Up Support	89% of Franchisors
• Site Selection	78% of Franchisors
• Turnkey Operation	43% of Franchisors
• Financial Package (with a financial institution)	34% of Franchisors

Ongoing Support

Responsible franchisors will provide their franchisees with support for the life of the agreement. This is called ongoing support and benefits both parties by ensuring that the franchise network maintains consistent standards and continues to grow and develop.

Initial support and the quality of ongoing support varies greatly among networks. Some of the most common types are:

- Field Visits
- Ongoing Training
- Communication Networks (including intranet and a hotline)
- Regular Meetings
- Training Programmes
- Conferences (for larger franchises)
- Franchise Advisory Councils (for larger franchises)
- Other 'Franchise Specific' Support (can include EFTPOS systems, centralised booking, systems, Master Franchisee support, accounting software, and insurance packages).



McDonald's international brand recognition coupled with a local marketing strategy are vital to its success (Zermatt, Switzerland).
[Image: HdV]

Marketing

McDonald's international brand recognition must comply with local signage regulations. In this Salzberg, Austria and the previous Kermatt example present recognisable but minimalist signage. [Image: HdV]

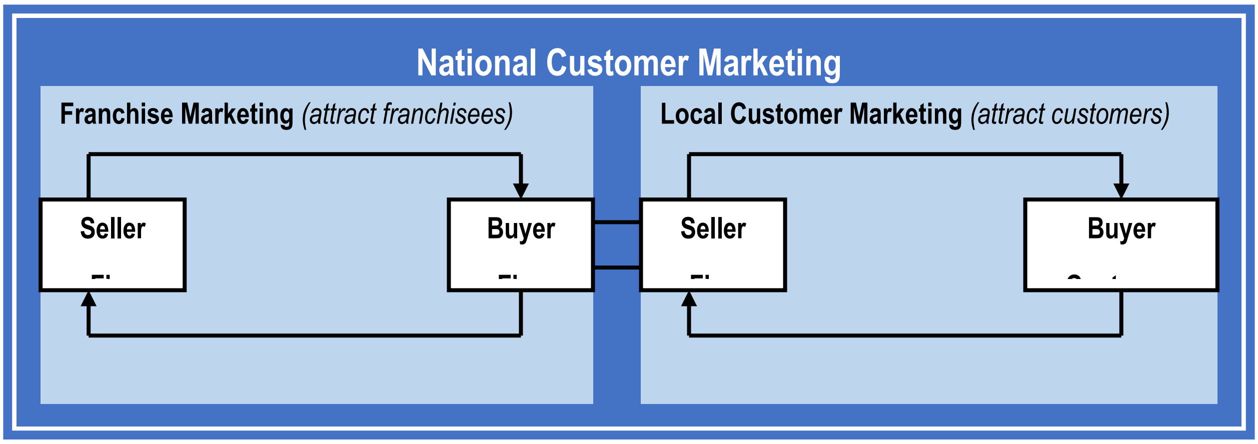
A franchisor ultimately has two types of customers: the consumer of the product or service and the franchisee who supplies the product or service. This can create a strategic dilemma - is the franchisor in the business of selling (a hamburger, for example), or in the business of franchising (selling franchise units)? To a certain extent, both markets need to be satisfied.

Those who have studied marketing may remember that successful organisations adopt a marketing philosophy in order to satisfy the customer's wants and needs, as well as fulfilling the business' objectives. Similarly, franchisors must adopt a marketing philosophy when dealing with franchisees in order to develop and maintain ongoing, mutually beneficial relationships.

In essence, a marketing strategy incorporates three relationships (Figure 7.1)

- Franchisor (F'or) – franchisee (F'ee): Franchise Marketing – to attract franchisees.
- Franchisor (F'or) – customer: National Marketing – for example, brand recognition.
- Franchisee (F'ee) – customer: Local Marketing – for example, promotions, and personal selling.

Figure 7.1
Franchising Marketing Strategy



Franchise Fees

At the end of the day, a franchisor cannot sustain the business without an income, and a franchisee cannot operate successfully if burdened by excessive fees. In short, there is a fine line between the support offered by the franchisor - which is at a cost - and the fee structure which will cover those costs and deliver a fair return to the franchisor.

Initial Fee: Most franchisors charge franchisees an initial fee upon entry to the franchise network. There are differing opinions concerning the purpose of initial fees. Are they for profit generation or simply a way to recover costs? To minimise entry costs for the prospective franchisee, initial franchise fees relate to the recovery costs of opening a unit, compensation for initial support, or the use of intellectual property and/or trademarks. Profit is generated from the ongoing fees.

Ongoing Fees: The franchisee must pay ongoing fees on a regular basis (weekly or monthly) for the term of the agreement. These fees are often known as franchise service fees or royalties. These fees should provide the franchisor with their main source of income. However, it may take several years before the franchise network reaches a size that will enable it to achieve this goal.

Ongoing fees are not purely profit: they compensate the franchisor for providing franchisees with various services, such as ongoing training, field visits from head office staff, intranet, newsletters, and telephone hotlines.

Ongoing fees can also be viewed as compensation to the franchisor for use of their **trademarks** and **the business system**.

Finally, ongoing fees may provide **incentives** for franchisors to ensure they maintain the quality of the franchise system. This is a cyclic process: the more investment in system improvements - the more successful the franchisees will be – the more ongoing fees they pay – the more profit generated and more cash available to the franchisor to reinvest in improving the system.

There are many different ways of structuring ongoing fees (commonly called royalties), with the three most common methods being (1) a percentage of sales, (2) a flat fee or (3) a combination of both flat and percentage fees. Other types of ongoing fees include: product supply fees, marketing/advertising levies, franchise renewal fees, and franchise transfer fees (commonly called service fees).

The Franchise Contract

The franchise contract is a very important document: some argue that it is the <u>most important</u> franchise document. As stated previously, it is *'the moment of truth'*.

This is the stage when the franchisor's and the franchisee's legal positions and obligations must be presented to the franchisee in writing: these contracts are subject to careful scrutiny by the franchisee and their legal support (the franchise's lawyer).

The contract is a legal document. It is a commitment which is legally binding for both parties.

At this stage, a franchisee should take legal advice as to the meaning and effect of the contract. In the end, as Mendelson (2007, p. 164) notes, it is *"the decision of the franchisee and the franchisee alone"*, whether or not to buy a particular franchise unit.

Mendelson (2007, pp.165 - 176) argues that a franchise contract has to consider a number of factors, including:

1 The relationship between the **franchisor** and **franchisee**. It must also acknowledge the two other parties who are not signing parties to the contract.

- All other franchisees within the network who will be impacted by the new franchisee's performance (good or bad). Accordingly, it has been said that a franchise business is only as good as its weakest franchise unit.
- Members of the public who expect the same standard of service regardless of what unit they go into.

2 The agreement should outline what provisions are made for the franchisee. This should include:

- A 'blueprint' of the methods of operation, trademarks, and support systems.
- This agreement must also preserve the franchise's trade secrets.

3 The contract should clearly indicate what standards must be maintained, how they will be imposed, and how they will be enforced.

4 The contract should state the terms of the agreement. While this is generally a long-term agreement, consideration must also be given to right of renewal and the renewal process.

The contract should also stipulate how the franchise agreement can be terminated by the franchisor or franchise. It should outline procedures such as 'written notification of breaches of contract', and proprietorship such as 'property rights'. The agreement should also outline the process for the sale of the franchisee's business.

5 The contract should stipulate the franchisee's ongoing responsibility to invest in the modernisation and upgrading of the premise and equipment. This ensures that over time that the franchise's attractiveness to the consumer does not fade.

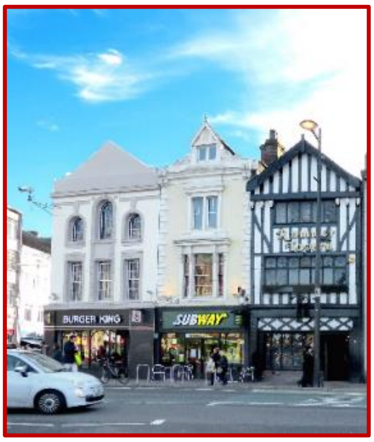
6 The contract should outline how the franchisor obtains their income (fees) and how they collect these payments. While it is important that the system is fair and simple to operate, it must be robust enough to minimise opportunities for avoidance of the true extent of the franchisee's fee obligation. The agreement should include:

- A standardised accounting system and reporting procedures,
- The franchisor's right to conduct 'spot audits' of franchisee's financial records,
- The franchisor's right to send support staff to view records and reports.

Master Franchising

Master franchising is a technique used by the franchisor to develop a concept in new markets. The franchise company will, in effect, sell a region to an area (or regional) developer, called the **Master Franchisee**. This is a partnership where the franchisor and master franchisee split the fees generated by the region. In exchange, the Master Franchisee conducts the franchise sales and provides services to franchisees located in their area. As Kestenbaum and Genn (2008) state, these types of agreements can be beneficial for the franchisor because:

- They provide a good model for franchisors who wish to expand rapidly.
- While it is good for area/regional developers if they are involved in a fast-growing system, there are negative features associated with this type of relationship, including:
    - A franchisor may sell a region to a developer who cannot handle rapid growth.
    - Regional developers may do or say anything to 'make a sale', which may leave the franchisor unhappy or with inappropriate franchisees.
    - Kestenbaum and Genn (2008, p. 95) also state that franchisors must be aware of cultural differences:



Burger King and Subway
Cardiff, Wales
[Image: HdV]

> *Another point to remember is that there are usually cultural and infrastructural differences between regions. It is foolish to think that because a franchise flourishes in one particular geographic area, it will have the same success elsewhere, even with the help of a regional developer [such as a master franchisee]. In order to thrive in another area, the franchisor may need to work with the developer to adapt the model to fit the cultural norms; transport and societal infrastructure, and the legal framework; and then create a corresponding advertising campaign that enables the consumer market to connect to the brand.*

The business format franchise model is a significant departure from the traditional corporate ownership model. An entrepreneur must give serious consideration as to whether franchising is the *right* model for expanding their venture. The development of a franchise business (as previously outlined) requires considerable resources and therefore should not be entered into lightly. Not all ventures suit the franchise model!

The Franchisee Experience

Many people I have spoken to aspire to own their own business and enjoy the freedom of self-employment. But is this a sensible choice for everyone?

Qualities of a Franchisee

Should everyone aspire to self-employment? Would an independent business or franchise provide more opportunities, challenges, and satisfaction? Or would they be better off in paid employment which offers security in the form of guaranteed income and various other benefits?

There is no easy answer to this question. One must examine an individual's personality, background, motivation, and other contributing factors.

Interestingly, a franchisee falls somewhere between being an employee and owning an independent business.

- An employee faces low financial risk but is highly dependent on the employer or organisation for guidance, control and remuneration.
- While a self-employed person faces a great deal of risk, in return, they have a greater control over their own destiny and earning power.

Somewhere in between is the franchisee, who still takes a high level of financial risk due to their investment in purchasing a franchise unit. However, investing in a well-established domestic or international franchise with a strong reputation and support systems, presents a lower risk than an individual starting an independent business venture. Furthermore, the relationship is inter-dependent, with both the franchisor and franchisee contributing to the franchise's overall success. This is why franchising is often referred to as *being in business for yourself, but not by yourself*.

Many perspective franchisees consider franchising for the wrong reasons (for example, buying a job), or having unrealistic expectations (for example, the generation of revenue without personal input). Who are the 'right people' and what are the 'right reasons' for buying a franchise? The following diagram illustrates the qualities associated with a successful franchisee.

Finance

First and foremost, the franchisee must have the ability to finance the investment. A franchisee will typically provide some personal finance (often around one-third of the total investment), but may also draw on borrowed funds in order to meet the total investment required. As a new franchise unit may take several months (or more) before it begins to prosper, the franchisee must be willing and able to sustain a lack of income for anything up to 12 months. In addition to the initial franchise fee, which will often include equipment, stock, and premises, the franchisee requires working capital to maintain cash-flow in the first year of operation.

A prospective franchisee should consider the acceptable degree of risk they are willing to take. For example, is the franchisee willing to place their house at risk? Will the franchise provide an acceptable level of income and return on investment?

Personality

A franchisee is required to stick to a proven system and cooperate as a team member with the franchisor and other franchisees. People who are more independent in nature may find this hard to do. What are the appropriate characteristics and what is a suitable temperament for a good franchisee?

The question of whether a franchisee should be entrepreneurial is open to debate. One school of thought suggests that a franchisee will have a touch of entrepreneurship but not too much. Table 7.1 offers some differences between the characteristics of a franchisee and a person who creates their own venture.

Table 7.1
Franchisor and Franchisee Attributes

Venture Creation Attributes	Franchisee Attributes
• Courage • Highly Independent • Visionary • High to Moderate Risk-Taker • Works Best Alone or in Full Control	• Caution • Open to Guidance • Methodical • Moderate to Low Risk-Taker • Team Player and Able to Share Control

Drive

To be successful as a franchisee, an individual needs a high level of commitment, enthusiasm, drive, and motivation. They must retain these characteristics even when times are difficult: that is, how driven they are to achieve their goals.

In operating a franchise business, it is very likely that franchisees will work long hours. It is not uncommon for franchisees to work sixty to eighty-hour weeks. Hence, a prospective franchisee must understand this obligation and be willing and able to devote the time needed to establish and grow the franchise unit. This also highlights the need for the franchisee to have adequate time to devote to their new business. They must also be physically fit and capable of doing the work.

Direction

Franchisees must be able to take guidance and direction from the franchisor. They must be able to see the value of operating under the franchisor's well-established brand name and method of doing business; in short, they must be able and willing to follow the system.

A franchisee must place trust in the franchisor's focus on the 'big picture' in developing the domestic and/or international network. The franchisee should understand that their role is to contribute not only to the success of their own franchise unit, but also to the overall network. Hence, the franchisee must follow the franchisor's 'game plan' and be able to accept the discipline of the system. At times, franchisees may find this difficult to do and think of breaking away from the network, but it is important to be regularly reminded that it is the standardisation of the network ('cloning' if you will) that makes franchised businesses successful.

Family support

The support of a franchisee's family is critical. Many franchised units operate as husband and wife or family teams, but even if that is not the case, family support is still important. Often, family money has been used to purchase the franchise unit or family members will work in the business. As noted in an earlier chapter, even family members not directly connected, will need to understand that other family members will be working long and often unsocial hours, with no guarantee of profits – especially in the business' early stages.

Advantages and Disadvantages Associated with Purchasing a Business Format Franchise

While there are a number of advantages associated with purchasing a business format franchise, which can reduce the franchisee's small business ownership risk, there are also some disadvantages that need to be considered before committing to any franchise contract. We begin by examining the advantages.

Advantages

- While the franchisee can achieve their personal goal of running a small business, they also gain the benefit of *economies of scale* typically available to large corporations.
- The franchisee has access to setup and ongoing assistance, proven and tested systems, ongoing training and development, and professional advice which a stand-alone small business operator does not have.
- With a well-established business format franchise, the product has a known and accepted trade name, thus reducing the need to build brand equity.
- The franchisee can receive market research and information updates relevant to business operations that would be very difficult or expensive to obtain as a stand-alone small business.

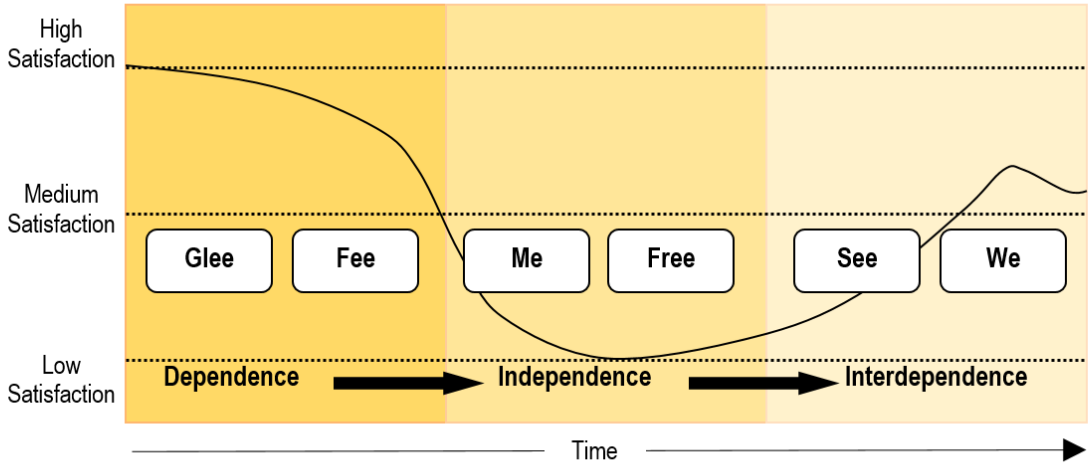
Disadvantages

- There are many regulations and controls related to the franchise's functioning, which the franchisee must adhere to. This is due to the standardised nature of franchising. This means that the franchisee has very little opportunity to be creative or put their personal touches on the business.
- The franchisor might sell the franchise which could result in uncertainty and change for the franchisees. Furthermore, the franchised units will suffer if the existing franchisor or any new franchisor mismanages the business or creates ill feeling in the community. Similarly, the franchise might not be as successful as the franchisor initially stated, or the franchisor might cause the business to go into bankruptcy which the franchisee has no control over.
- Some franchisors oblige the franchisee to purchase equipment, products or services from the franchise itself. This can frustrate franchisees who may feel that the franchisor unduly increases prices, or leaves them unable to buy products at cheaper prices from elsewhere.
- As a franchise is usually a very specialised business with a clearly defined format, environmental changes may leave the business unable to adapt and change accordingly.

The E Factor

Franchisees tend to experience a similar pattern of behaviour as they progress from their initial dependent relationship with the franchisor to their later interdependence. These experiences have been coined the ***'E Factor'*** (see Figure 7.2).

Figure 7.2
The Franchise Satisfaction Level



1. **Glee Stage**: In the glee stage, the franchisee is excited and optimistic about the franchise. During this time, a lot of new experiences and learning are taking place. The franchisee is very happy with their decision to invest in the franchise.
2. **Fee Stage**: After 6 to 12 months the euphoria wears off and the franchisee is faced with the reality of the hard work involved. In particular, franchisees tend to question why they should pay the ongoing franchisor fees.
3. **Me Stage**: In this stage, the franchisees feel their success is due to their own personal contributions, discounting the franchisor's collaboration. They may begin to feel that they could operate just as successfully without the franchisor.
4. **Free Stage**: In the free stage, the franchisee becomes disenchanted with the restrictions of the franchise and craves independence. This can be a critical time in the development of the relationship. Some franchisees fail to resolve their feelings and remain resentful.
5. **See Stage**: Following their earlier disenchantment with the franchise restrictions, franchisees may begin to see the benefits of working as part of a team to achieve mutual goals.
6. **We Stage**: Franchisees who have been through some ups and downs but who are operating profitable businesses will realise the synergistic benefits of an interdependent relationship. They will improve the franchising relationship by making contributions to the development of the system.

Source: Adapted from Nathan (1996)

Exercise 7.3: Suitability as a Franchisee? (Austria)

No matter what you are used to, going into business for yourself for the first time can be a frightening prospect. But 45-year-old Valentina Müller, who has lived most of her life in Vienna, is eager for a new challenge and is interested in purchasing a franchise. The former Police Officer cleared her locker last year and left the force after a serious back injury consigned her to a desk job she did not enjoy. She has left behind a career in the Police where she has worked since she finished school at 19 years of age. She is now looking to be self-employed. Valentina is a highly motivated person who is fiercely independent, authoritarian, self-directed, methodical in her activities, and a good team person. Sadly, her husband passed away three years ago. This year her son Dominik joined the Police and her daughter Katharina, who is presently still living in the family home, is completing her first year of full-time business study at WU University.

WU University, Vienna, Austria
[Image: HdV]

Katharina also works part-time in a local convenience store, and is not convinced owning a franchise is a good option for her mum. In contrast, Dominik thinks 'if that is what his mum wants to do, she should do it!' But Dominik is too busy with his own career to provide anything than moral support.

Valentina has certainly left the Police for good. She plans to stay in Vienna, and with the life insurance pay-out she received after her husband unexpectedly passed away, she has paid off the mortgage on their family home. In 2019 she went on a cruise around the Hawaiian Islands where she spent the remainder of the life insurance money. Since leaving the force, she has been paid a police pension. Apart from taking a short business course through the university during the 2020 Covid-19 lockdown, she feels a little lost on what to do with her life moving forward. Valentina wonders if buying a franchise is the right way for her to move on with her life?

Question: Do you believe Valentina would make a suitable franchisee, for any of the following five franchised businesses? Your answer should describe Valentina's strengths and weakness and your overall recommendation as a suitable or unsuitable franchisee prospect (in the context of each of the franchise businesses listed below).

1. Commercial Cleaners: Jani-King

Founded in 1969, Jani-King is the world's largest commercial cleaning franchise company. Through a network of 120 Regional Support Centres and 9,000 Franchise Owners in 12 countries around the globe, Jani-King provides commercial janitorial services to tens of thousands of satisfied customers on a daily, weekly or monthly basis. The company provides full operational sales administration support for franchisees. Investment required: from $22,000+

2. Fitness Gym: Snap Fitness

Turn your passion into an innovative investment. With Snap Fitness you have the opportunity to partner with a global fitness franchise that knows no boundaries. With over 2,000 facilities open or in-development around the world, our ‘turnkey’ business model (that is, fully set up) is an economical way to get in on one of the fastest growing global industries. At Snap Fitness it is our mission to deliver results through the most rewarding fitness experience in the world. Investment required: from $350,000

3. PARS (A convenience store)

PARS is a leading convenience store chain which offers group buying, a uniform image, full staff training, assistance in shop layouts and designs, profit reports, assistance with staff rosters, group advertising, and full accounting facilities. New sites and conversion of existing businesses welcomed. Investment required: from $400,000

4. Home Services: Duo Photography

Duo Photography is a leading professional photography business originating in New Zealand. It has the only studios that are fully mobile. They are looking for people with a passion for photography and a warm personality. They offer professional training, biz training, ongoing support, and a booking service. Investment required: from $25,000

5. Home Services: Woolgro (A lawn laying service)

Woolgro is a unique and proven system to establish premium lawns using innovative pre-seeded lawn mats. Franchisees do not have to have a landscaping background - just be customer-focused and enjoy working outside, building a business based on excellent service. Woolgro have developed a simple and dependable system for quoting, preparing, laying, and caring for installed lawns. Investment required: from $25,000 - $50,000.

Going International with Franchising

As stated in the introduction, the pressure on entrepreneurs to seek out foreign markets to increase sales of their products and services has heightened interest in international franchising.

Market Assessment

Aliouche and Schlentrich (2009) have proposed a model composed of three sections: (1) an assessment of the external macroenvironment of the targeted country or region, (2) an assessment of the internal micro-environment of the franchise system, and (3) an assessment of the financial and strategic considerations related to the entry and expansion mode(s).

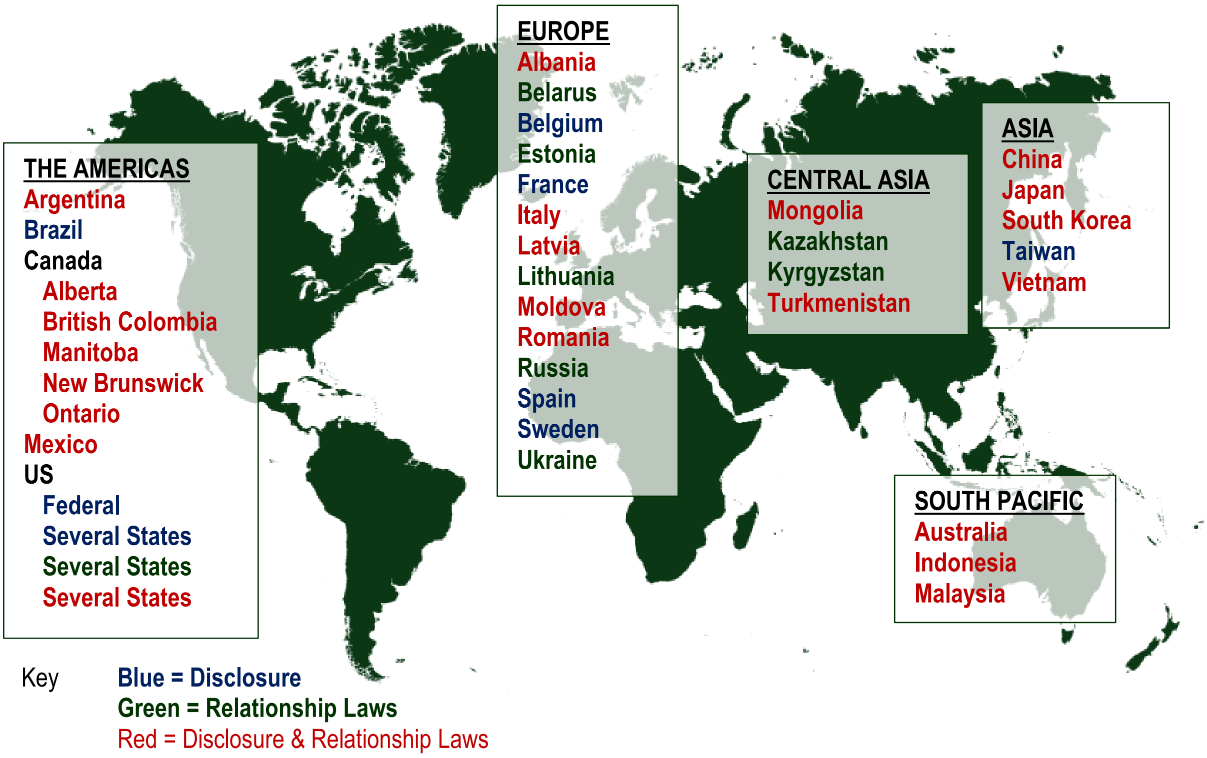
Intellectual Property

As discussed in Chapter Four, intellectual property refers to all the patents, trademarks, copyrights, or trade secrets held by the business format franchise. These are important assets owned by the franchisor/business. Too often, because of their lack of time, resources or understanding of intellectual property, entrepreneurs ignore important steps that should be taken to protect these assets internationally. The employment of a skilled international franchise lawyer with an understanding of intellectual property protection rights is money well spent.

The International Legislative Frameworks

International laws related to franchising vary considerably from country to country (see below). Questions such as 'where can we safely and profitably franchise?' or 'are there legal considerations that will dictate targeting?' may be difficult to answer without prior knowledge of a country's legislative framework concerning franchising disclosure laws (the disclosure of critical information to franchisees) and relationship laws (the legal business relationship).

Figure 7.3
Specific Franchise Law in Different Countries



***Self-Regulation**:* Some countries do not have specific franchising laws: instead, they rely on general business laws governing normal commercial activity, and self-governance of the franchise sector.

While New Zealand has no franchising laws, the Franchise Association of New Zealand has developed a Franchising Code of Practice and Code of Ethics for the sector (https://www.franchiseassociation.org.nz/rules-and-codes/). Members of the Association are bound to operate according to these codes. They protect both franchisors and franchisees alike in regards to the disclosure and relationship principles embodied in law in many other countries. The Association also organise annual conferences or seminars, endorses a quarterly magazine Franchise New Zealand, publishes books and guides for franchisees and franchisors and a regular newsletter.

Chapter Summary

A franchise opens every eight minutes. This chapter has examined how an entrepreneur can take advantage of this business model. Specifically, it has explained the business format franchise model. Key 'take homes' are:

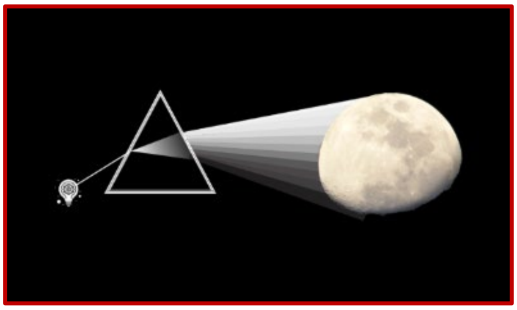
- Ventures suited to business format franchising should have: a unique product, a service or system that is not easily copied but which can be taught to inexperienced operators. It should also be well-established with strong branding, profitable and trading strongly. The franchisor must be capable of exercising control over the franchisee, but allow enough scope and revenue making potential to attract franchises.
- The transition to a business format franchise requires: piloting, manuals, site and territory selection, the recruitment of franchisees, initial and ongoing support, marketing support, a fee structure, and a franchise contract.
- A good franchisee is an individual who has financial backing, the right personality, drive, can take direction, and has their family's support or blessing.

Having considered the national and international potential of franchising and reviewed the model from franchisor and franchisee perspectives, it is important to remember that franchising is by no mean the only or necessarily the best option for the international entrepreneur. However, the visibility, growth and popularity of franchising is undeniable.

Chapter 8: Dark Side of Entrepreneurship

Do what you love and believe in. Do it well, do it with integrity, and the money will follow

A great deal of this text has heralded the successes, achievements and possibilities for the entrepreneur. However, the existence of what Kuratko and Hodgetts (2007) refer to as the **dark side of entrepreneurship** can affect both the domestic and international entrepreneur. This chapter provides an alternate view of entrepreneurship and describes the harmful factors that may consume the entrepreneur and manifest themselves through undesirable and sometimes destructive behaviours. To be a successful entrepreneur (both in one's business and one's private life), and display a social conscience, it is important to understand the dark side from internal and external perspectives. This may sound rather negative, but it is actually a 'good news' story! Forewarned is forearmed.



Alternate Views of Entrepreneurship: The Dark Side

Popular opinion views entrepreneurial behaviour as wealth forming and the solution to many of society's problems. We view entrepreneurs as people who can seize opportunities, marshal resources, and optimise value creation. They are perceived as important catalysts in the economic system that drives society, as they navigate the global social and economic structures to deliver products and services to match societal needs, whilst achieving high levels of personal success. The media reproduces this view of the entrepreneur through 'reality TV' programmes such as 'Dragon's Den' and 'The Apprentice', and current affairs programmes such as '60 Minutes'. They place the entrepreneur centre-stage as a heroic role model, and often as the saviour of their communities. But is this the only, or for that matter, a healthy view of entrepreneurship? Does it raise expectations of entrepreneurship beyond what the discipline can really deliver? Is the folklore far greater that the reality?

A Zombie!

Newbery and Jinman (2013, p. 3) take a rather critical view of the entrepreneur. They write: *"The dominant entrepreneurial discourse may be damaging the development of future generations of entrepreneurs by providing inappropriate role models and unrealistic expectations related to the entrepreneurial process. It may be encouraging glory-seekers with no entrepreneurial talent and discouraging the camera-shy but talented individual. As such, we need to find approaches that challenge the dominance of the heroic discourse. Kets de Vries provides an alternative narrative: Here, the entrepreneur is presented as a social deviant who has been pushed into commercial*

ventures by their failure to manage relationships and responsibility in 'real life' (1985). There is evidence that the dominance of the heroic discourse is relatively new, with entrepreneurs traditionally being seen as shady, exploitative characters. This can surface in different national cultures that are in different stages of their economic development (Anderson et al., 2009). Finally, there is a growing discourse on failure, where failure is not the default plot requirement for the entrepreneur's subsequent success (Timmons, 1999), but rather, a traumatic emotional event akin to bereavement" (Shepherd, 2003).

To drive their point home, Newbery and Jinman make a rather amusing comparison between the behaviour of zombies in horror movies and entrepreneurial behaviour. They present some chilling (if somewhat 'tongue in cheek') similarities! Both engage in savage consumption, are relentless in their pursuit of their goal, they display an instinctive ability to react, they show inhuman rationality, they have infectious behaviour, and have an ability to surprise.

While this is a far cry from the **balanced** view of the entrepreneur, it reflects some of the derived cynicism in society regarding the entrepreneur.

The 'Dark Side' - An Internal Perspective

The internal perspective considers the detrimental and sometimes unexpected consequences that unsound or imprudent entrepreneurial behaviour can have on the individual entrepreneur.

Failure: Pitfalls of International Entrepreneurship

Failure is part of being an entrepreneur, of being a person of value, and importantly, of being successful. The secret is to learn from it, bounce back and be better. Yet the entrepreneur should be wary of **'fatal flaws'**. These are failures from which an entrepreneur cannot recover.

The Fatal Flaw

A young entrepreneurial couple decided to open a new restaurant in a residential suburb of Coburg, Germany. They leased a suitably located building and began renovating in readiness for opening night. The week before opening the national food safety inspector came to certify the restaurant. The inspector found the extraction system in the kitchen was too small to comply with current regulations. On further investigation, the couple found that local bylaws would not allow them to increase the size of the existing extraction system which was already at the maximum size allowed for a residential location.

The couple had encountered a **'fatal flaw'**; they could not open because the extraction system was too small to meet national food safety regulations, but they could not increase its size because of local bylaws!

Coburg, Germany [Image: HdV]

Fatal flaws are evident in both domestic and international business activities. In fact, the transitional stage - from domestic success to a potential international entrepreneurial activity - can be the most critical and high-risk stage of any venture. Below we outline five common pitfalls which can lead to fatal flaws:

1. ***Falling 'In Love' With an Idea or Opportunity****:* This can lead to a lack of objective evaluation of the international context. Even though an entrepreneur loves a particular 'product or service' or may dream of international growth, these factors do not guarantee success: in fact, the reverse may be true.

2. ***Poor Financial Management****:* An international entrepreneur may have poor financial understanding. An entrepreneur may become overly optimistic in estimating the funds required to carry out an international business entry strategy. In fact, entrepreneurs commonly underestimate by half how much money they will require!

   Establishing an international venture requires the investment of considerable time and money, before the venture reaps tangible rewards. If the entrepreneur enters the market undercapitalised or assumes too much debt, they are in danger of not being about to stay the course.

3. ***No Real Understanding of the International Market****:* A major flaw in entrepreneurial venturing is underestimating the importance of a strategic marketing approach in laying the foundation for a new international venture. Factors such as good timing, ensuring the product or service is culturally acceptable, an understanding of local pricing, and appropriate promotion and distribution networks, are critical for international success.

   A new international venture should offer **uniqueness**. It must understand the market so that it can deliver special characteristics, pricing, design concepts, or delivery options that draw new customers to the venture.

   There is also the risk of over-reliance on one type of customer and a failure to diversify. Losing customers or a failure to attract them in the first place may spell the end of the venture, perhaps even before it has 'got on its feet.'

4. ***Ignorance of Legal Issues****:* As highlighted in the above domestic case study, international businesses are subject to the host country's legal system as well as the many business-specific and local government legal requirements, including safety, consumer protection, and intellectual property acts. Navigating the legal system in foreign countries is complex. While the risk of overlooking or misinterpreting legal requirements is very real, '***ignorance of the law is no excuse!'***

5. ***Inadequate Technical or Human Resource Expertise****:* The development of products or services for an international market often involves new systems and techniques, or raises new technical difficulties. There can also be product design problems. Does the entrepreneur have the right team to manage such situations? An inability to effectively deal with such technical issues can spell the end of a venture.

Problems can also arise around the entrepreneur's management of their staff. Issues related to poor relationships, ethnocentrism, ineffectual support and over-control can destroy a venture from within. The entrepreneur needs to establish a strong team around them and manage their human resources well. The venture is only as good as the commitment and skills of its people. In the international context, this becomes even more complex!

The Entrepreneur's Evaluation of Risk

Starting or growing a venture involves risk for the entrepreneur. The age-old adage generally holds true: the greater the rewards, the greater the risk. Yet not all entrepreneurs understand the ***types of risk*** they will be exposed to, as all risks taken by entrepreneurs cannot be completely explained by the allure of increased profits. This is why entrepreneurs should understand the different types of risk and evaluate these very carefully. What is an acceptable risk, or to put it another way, what can they live with?

Exercise 8.1: The Founding of Apple Computers

Not everyone knows that the original Apple Computer Company was founded by three people: Steve Jobs, Steve Wozniak, and Ronald Wayne. While Jobs and Wozniak were both in their 20s, Wayne was in his 40s. Just 12 days after formation, Wayne, who until then had a 10% share of the company, went to the company's office and had his name removed from the contract. Years later Steve Wozniak said of Wayne's exit *"I figured it was because we were getting parts on credit, building the computers with no money and then selling them for cash to pay the credit. And if anything fell through in that plan Steve Jobs had no savings account, no money, or relatives or friends with money. Neither did I and so our adult supervisor Ron might be on the hook for the money [as he had savings and owned a house]. And I felt that might have scared him off as he was taking the majority of the risk and only getting 10%."* Speaking of his decision, Wayne confessed that if he had stayed with Apple it would have become all consuming. He is reported to have said: *I've had the idea and always had the idea since, that if I'd stayed with the Apple Computer Company I would have wound up the richest man in the cemetery.*

Question: What form(s) of risk did Ronald Wayne consider to be 'too great'?

Kuratko (2017, pp. 36 - 37) groups different types of risks into four basic categories:

- ***Financial Risk****:* Refers to the entrepreneur's personal financial position being at risk. Are they willing to put their family savings, their house or other assets at risk? Could they cope with losing everything if the venture fails, or even bankruptcy! The acceptance of or aversion to, financial risk may also shift over time depending on the entrepreneur's changing business and personal circumstances.
- ***Career Risk****:* A question a budding entrepreneur should ask themselves is could they get their old job back or could they find a new satisfying career with a high salary if the venture failed?

- ***Family and Social Risk**:* Creating or growing a venture can, in the medium term, become all-consuming. In short, there is a risk of an incomplete family experience for partners and children, and even possible emotional scars for family and loved ones. Is this an acceptable risk?
- ***Psychic Risk:*** There is also risk to the entrepreneur's well-being. The psychological and physical impact can be severe on the entrepreneur with respect to symptoms such as depression, anxiety, headaches, back-pain, and bad eating habits.

The entrepreneur should consider how they can effectively manage or negate these risks, and ask the question: do the potential rewards justify the cost? If the answer is that they can live with, and effectively manage these risks, then they can move forward confidently with the entrepreneurial venture.

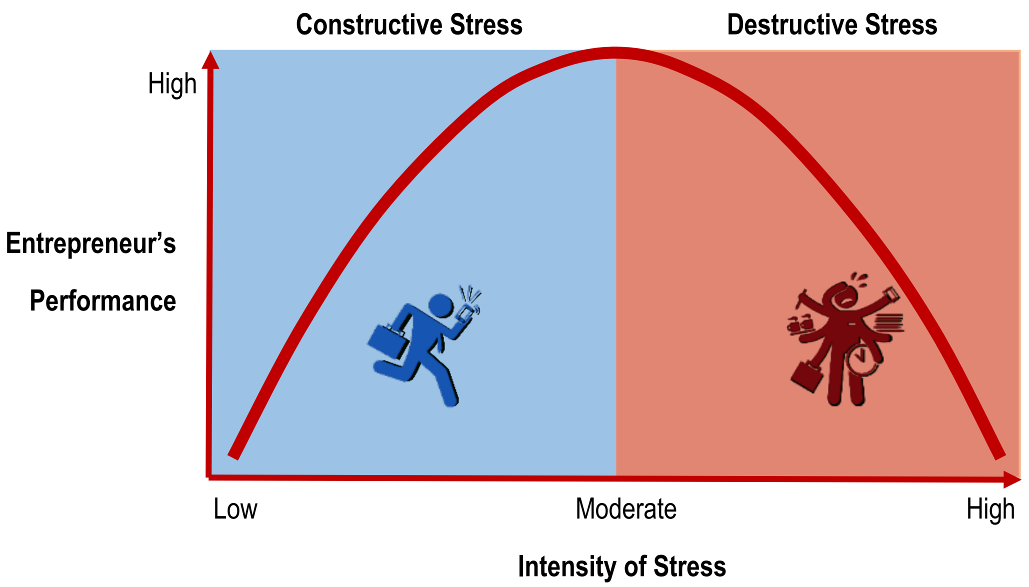
Stress and the Entrepreneur

Successful entrepreneurs can generally absorb or deflect high levels of stress when dealing with the uncertainty, ambiguity, and the dynamic nature of new business ventures.

In fact, a certain level of stress can enhance performance. However, it is the extent to which the entrepreneur's work demands and expectations exceed their ability to perform that may increase stress to a point where it can impact negatively on the running of their venture. Management theory (Schermerhorn et. al., 2017, pp. 462 - 463) has identified how the intensity of stress can affect an individual, or, in our case, the entrepreneur.

In the **constructive stress zone,** stress can enhance the entrepreneur's performance by activating excitement, greater effort, clearer focus, and higher levels of creativity. But once the entrepreneur enters the **destructive stress zone**, performance can decline through the entrepreneur being less attentive, making errors, suffering from health problems, and being withdrawn (Figure 8.1). This can be further exacerbated by declining work satisfaction and personal problems.

Figure 8.1
Entrepreneurial Stress



Adapted from Schermerhorn et al. (2017).

Kuratko (2017) cites Boyd and Gumpert's (1983) four causes of high levels of entrepreneurial stress:

- ***Loneliness**:* Long hours, the nature of the business, and a single-minded focus often isolate entrepreneurs from people in whom they can seek comfort and support such as family and friends.
- ***Immersion in Business**:* Working relentlessly and often unsociable hours may leave little time for other activities. The irony is that while successful entrepreneurs can become asset rich and ultimately make lots of money, they may have little time to enjoy it!
- ***People Problems**:* When dealing with people from a variety of backgrounds, cultures, and with different 'world views,' entrepreneurs may experience frustration, disappointment, and/or aggravation.
- ***Need to Achieve**:* There is a fine line between attempting to achieve too much and failing to achieve enough. Entrepreneurs struggle to appreciate that line and more often than not, try to achieve too much.

Left unchecked, these sources of stress can become counterproductive.

Exercise 8.2: Burnout

Morgan Miles, an American Professor researching entrepreneurial stress, found that entrepreneurs suffer more burnout than other business people: *"There are a lot of reasons why entrepreneurs have problems with burnout. One of the big factors of course is role stress. An awful lot of role stress and they have a lot of role ambiguity. Many entrepreneurs are involved with family businesses, and in family businesses you have a lot of conflict in the family. It's hard to know if an entrepreneur is being a parent or a child – who they are serving. … So, entrepreneurs tend to have very high stress jobs with lots of conflict. They tend to be socially isolated because they just work all the time. They tend to have bad life-work balance and at least in the US, they don't have access to good healthcare resources. Another problem entrepreneurs face, is often in their organisation, as they are the only person who has to deal with things like strategy and marketing. Everything falls on their shoulders."*

Question: What stress management strategies could entrepreneurs employ to avoid burnout?

The Entrepreneurial Ego

In addition to the challenges of risk and stress, Morris, Kuratko and Covin (2011, pp. 432 - 433) argue that an entrepreneur may also experience the negative effects of an inflated ego which manifests itself through:

- ***An Overbearing Need for Control**:* This is not an ideal state as the entrepreneur's thinking and behaviour is dominated by the need to have total control of their venture and their own future. This can cause blinkered judgements and alienate staff, colleagues, family and friends.

- ***Distrust**:* An entrepreneur can become overly suspicious of all people and practices connected to their business, to the point where it damages business relationships, distorts their reasoning, or they become preoccupied with trivial things.
- ***Success as the Overriding Driver**:* While success is an important driver, there is a danger when personal success becomes more important than the venture itself or the success of the entrepreneur's team. Losing that sense of perspective of what the business stands for and why it was started in the first place, can cost the entrepreneur personal and business relationships. It can also lead to a loss of compassion and social conscience.
- ***Unrealistic Optimism**:* The entrepreneur needs to believe in themselves, their team and their venture. However, an entrepreneur may cross the line when their ego dominants reason and they develop unrealistic expectations, or make poor judgements on what can be achieved.

As Edward de Bono (1996, p. 66) has asked: "*When does confidence become arrogance?*" This is a challenging question, as the divide is very fine. Once the entrepreneur moves from confidence to arrogance, the impact can be considerable!

De Bono suggests that confidence is being secure enough in oneself to adapt and change, to be aware of, and open to, new ideas and different views. He argues that arrogance is a closed box in which the entrepreneur's view is the only view. In this scenario, being a successful person becomes more important than being a person of value.

How can entrepreneurs avoid arrogance? Simply remain humble and true to your values (we consider values in more detail later in the chapter). Rather than believing in a singular truth, be open to multiple possibilities, and make a habit of exploring alternative perspectives.

The 'Dark Side' - An External Perspective

The external perspective considers how flawed or deceptive entrepreneurial behaviour can have detrimental and sometimes unexpected consequences for various stakeholders (from the individual through to society as a whole).

The External Impact of Entrepreneurship

The **dark side of entrepreneurship** can also have an external impact: that is, an impact on society at large. While we have considered failure from an internal perspective, it's consequences can be far-reaching. Throughout history, would-be entrepreneurs have left trails of unpaid debts, out-of-pocket investors, disillusioned staff, and damaged families. In creating a new venture, the entrepreneur may defer some risk, but with that there is the obligation for the entrepreneur to operate responsibly and ethically. But this is not always the case!

Historically, entrepreneurship has been seen as having 'dodgy overtones'. An entrepreneur's dealings can sometimes be borderline ethical. They have been accused of 'sailing close to the wind' in testing current legislation to the limit, ignoring society's ethical norms, or manipulating the environment for their personal benefit.

Occasionally, in their drive to achieve their dream or improve their current situation, entrepreneurs have overstepped the bounds of acceptability. Others have gone far beyond that, attempting to succeed at any cost!

Types of Entrepreneurial Ethical Judgement

It can be useful to return to management theory as a means of understanding different entrepreneurs' ethical perspectives. To describe the various types, I have adapted Caroll's (1987) judgement theory (cited by Bartol et al., 2011, p. 117).

Entrepreneurial ethics typically fall into one of three categories:

- ***Immoral Entrepreneur****:* This is a person who lacks any ethical principles. They are driven by self-interest, power, and unbridled financial success with little regard for others. All their decisions are underpinned by the key question *"Can I make money with this action, decision or behaviour?*"

- ***Amoral Entrepreneur****:* This person is also driven by self-interest and success. While they view ethical considerations as irrelevant (or are oblivious to ethical imperatives), they do believe they should operate within the law. All their decisions are driven by the key question *"Within the letter of the law, can I make money with this action decision or behaviour?"*

- ***Moral Entrepreneur****:* This person follows ethical principles and precepts, as they acknowledge their social obligation to society as a whole. In fact, they consider their responsibility to all stakeholders as they strive to be successful (for example, they seek both financial rewards and aspirational goals). All their decisions are driven by the key question *"Is this action, decision or behaviour fair to me and all parties involved?"*

It can be been suggested that although amoral entrepreneurs currently dominate the business environment, moral entrepreneurs (such as Angus Trait) have greater longevity.

Exercise 8.3: Walk in Another Person's Shoes

Customs seizes 239 elephant tusks *"Thailand has seized two tons of elephant tusks from Africa, hidden in pallets labelled as mobile phone parts, in the country's largest ivory seizure (NZ$5.23m). It is a further sign that Thailand is emerging as a hub for the illicit trade"* (Business Day, Feb. 2010).

Charity money promised by 'inspirational' health app developer not handed over: *"A social media entrepreneur who shot to fame off the back of her cancer survival story failed to hand over thousands of fundraising dollars promised to charities. She blamed her company's 'cash flow' problems for the 15-month delay. A spokeswoman for one of the charities said: "You don't take charitable funds and put it into the cash flow of your own business."* (Brisbane Times, Mar. 2015)

Plight of refugees: "*At the same time, they [refugees] are susceptible to paying bribes for quasi-protection (Freiling & Harima, 2019). In extreme cases, although seeking asylum is a human right, Missbach (2015) identified that some asylum seekers themselves turn to the business of people smuggling due to their dire situation and limited options. In effect, this rather dubious entrepreneurial activity can occur as a consequence of a combination of their inability to return to their home country, rejection of claims for protection, and a lack of money."* (de Vries, Runabahu & Basharati, 2021)

Questions: What do all of these cases have in common?

Who is at fault in each of these situations?

The 'Dark Side' Typology

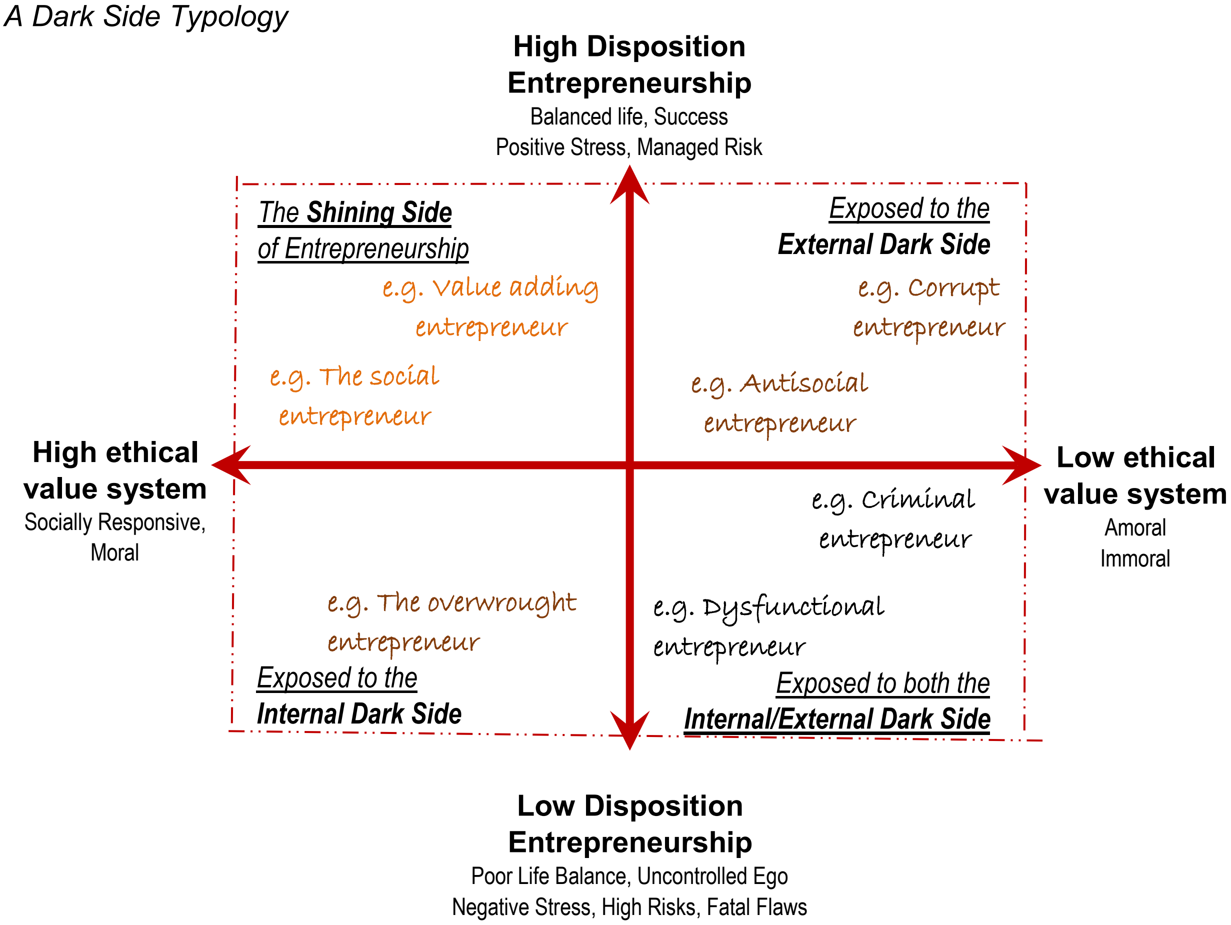
A means of bringing our understanding of all these dark side perspectives together is the **dark side typology** (Figure 8.2) which considers two factors: disposition and ethical spheres.

Disposition: On the vertical dimension, the entrepreneur's performance is a continuum of a *high disposition* sphere in which they balance business, family and personal imperatives whilst relishing positive stress, managed risk and achieving or surpassing their goals. In contrast, the low disposition sphere represents the entrepreneur who is under pressure, with a poor life balance and an unchecked ego. They are more likely to take high risks (both business and personal risks) and thus suffer from high levels of stress. They may favour a 'winners take all' approach to decision making.

Ethical: On the horizontal dimension, the entrepreneur's performance is a continuum of a *high ethical* sphere. The entrepreneur operates with moral judgement and a strong value set which upholds social responsiveness. In contrast, in the low ethical sphere is the entrepreneur who does not consider, or is oblivious to the need for ethical behaviour in business (amoral). At the extreme end, they may be obstructive towards or blatantly ignore ethical obligations in their business activities (immoral).

Effective entrepreneurs (both personally and professionally), operate in the high disposition/high ethical quadrant. Entrepreneurs in the other three quadrants represent, in varying degrees, the dark side of entrepreneurship.

Figure 8.2
A Dark Side Typology



Ethics and Corporate Entrepreneurship

As they strive for innovation, renewal, and ultimately financial success, corporations look to foster entrepreneurial behaviour amongst their people. However, when left unchecked, entrepreneurial behavior can fuel questionable and unethical actions. Poor behavior has led to financial failure or the complete demise of the organisations involved. During the Global Financial Crisis (2007-2008), Wall Street moguls the Lehman Brothers and Merrill Lynch failed very publicly and dramatically because of their questionable lending practices. But more disturbingly was the fact that they were just the tip of the iceberg in terms of unethical corporate behavior at that time: all of the examples were driven by a culture of self-interest, power, and money.

The reality is that unethical behavior is not restricted to the Global Financial Crisis for large corporations There is a long and ignominious history of corruption and failed organisations like Enron.

Exercise 8.3: Enron Scandal: Fall of a Wall Street Darling

The Enron Corporation is a company that reached dramatic heights, only to face a dizzying collapse. The story ended with the bankruptcy of one of America's largest corporations. The timeline charts the company's rise and subsequent demise:

1985 Enron formed following a merger between Houston Natural Gas Co. & InterNorth Inc.
1995 Enron is named "America's Most Innovative Company" by Fortune. The firm goes on to win this award for six consecutive years.
1998 Andrew Fastow is promoted to CFO. He ultimately spearheads the creation of a network of companies that hide Enron's losses.
2000 Enron's shares skyrocket to an all-time high of $90.56.
Feb. 12, 2001 Jeffrey Skilling replaces Kenneth Lay as CEO, but Lay remains a member of the board of directors.
Aug. 14, 2001 Skilling resigns suddenly, and Lay takes over once again. Enron's broadband division also reports a massive $137 million loss. Analysts became weary of the company and subsequently dropped their ratings for Enron's stock. In turn, the company's share price dives to $39.95, a 52-week low.
Oct. 12, 2001 Arthur Andersen, Enron's accounting firm advises auditors to destroy all of Enron's files, except Enron's most basic documents.
Oct. 16, 2001 Enron reports a $618 million loss and $1.2 billion value write off. Enron's stock drops further, to $38.84.
Oct. 22, 2001 Enron announces it is facing a SEC probe. Following this announcement, share price immediately drops to $20.75.
Nov. 8, 2001 Enron admits it has been inflating its income by around $586 million since 1997.
Nov. 29, 2001 Arthur Andersen becomes another casualty of the Enron scandal as the SEC expands its investigation.
Dec. 2, 2001 Enron files for Chapter 11 bankruptcy. Its stock close at $0.26.
Jan. 9, 2002 The Justice Department launches a criminal investigation.
Jan. 15, 2002 Enron is suspended from the NYSE.
Jun. 15, 2002 Enron's accounting firm, Arthur Andersen, is convicted of obstructing justice.

Washington DC, US
[Image: HdV]

Enron's collapse affected the lives of thousands of employees and shook Wall Street to its core. At Enron's peak, its shares were worth $90.75, but after the company declared bankruptcy on the 2nd of December, 2001, they plummeted to $0.67 (the January 2002 share price). To this day, many wonder how such a powerful business disintegrated almost overnight and how it managed to fool the regulators with fake, off-the-books corporations for so long.

Source: http://www.investopedia.com/updates/enron-scandal-summary

Questions: How can such a powerful business disintegrate almost overnight? Discuss this question in terms of ethical principles.

Given high profile cases like Enron, is it little wonder that the popular media portray unethical behavior as indicative of corporate life? Yet entrepreneurial behavior is not inherently unethical, or ethical for that matter. One must have a robust system in place to drive corporate success and ensure that ethical business standards are maintained. The remainder of this section considers how an entrepreneur can develop an ethical framework for themselves and their business venture.

What Creates Success?

In 1983, Timmons and Stevenson conducted research with 128 presidents/founders attending a Harvard Business School's Owner/Founders Management Programme. They were experienced entrepreneurs, with most of them aged in their mid-40s. All had sales which ranged between $5 million and $200 million. They were asked to explain why their companies were successful: Seventy-two percent of the presidents stated that high ethical standards were the single most important factor in long-term success.

Source: Timmons (1999)

An Ethical Framework for the International Entrepreneur

In its broadest sense, ethics provide the basic directives or boundaries for conducting any activity in what societal norms deem as an "acceptable" manner. It deals principally with a behavioural code that explains what is good and bad, what is right and wrong, and what is one's moral duty and obligation. In terms of our debate, it refers to the principles of conduct governing an individual (the entrepreneur) or a group (the entrepreneurial venture's team/staff members). However, as the 'international business community' operates in a dynamic and ever-changing environment, an entrepreneur's duties and obligations and different societies' perceptions of right and wrong are not set in stone!

Ethics in a Cross-Cultural World

One of the entrepreneur's most vexing problems relates to the conflicting views on how to do business across borders and across cultures. Frederick et al. (2013) explain this dilemma using the extreme positions of relativist ethics (as in 'do as the Romans do') and absolutist ethics in which a home country's beliefs and ethics must be applied overseas in the same way as they are at home.

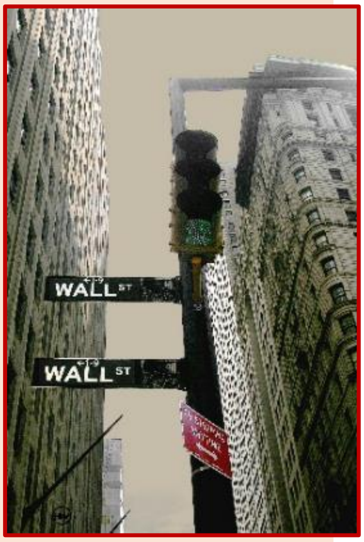
Relativist ⟺ **Absolutist**

If we take the example of gifts and incentives - there are vast difference between countries regarding the prevalence of and attitudes towards offering or receiving gifts, loans, fees, rewards, or other inducements to do something that may be dishonest, illegal, or contrary to fair business practice (Table 8.1). While in some countries such activities may be considered bribery, giving a souvenir of your country for the child of an overseas colleague may be no different than what might occur between friends. In fact, such a practice may be considered a common courtesy. At what stage could it be construed as unethical? This may depend on the intent in which the gift is given and the recipient's response.

The pure absolutist approach may well expose the entrepreneur or their team to embarrassing confrontations or cause cultural offence. A purely relativist approach may expose the entrepreneur or their team to unwanted behaviours, legal ramifications or even criminal convictions, as well as degrading the organisation's ethical principles. Donaldson (cited in Schermerhorn et al., 2017) argues that it is less about relativist or absolutist views, it is more about core values. He contends that all business practices should uphold human dignity, basic rights, and provide an example of good citizenship.

The Wolf of Wall Street

Jordon Belfort (The Wolf of Wall Street) served two years in prison and lost his fortune after being convicted of corrupt business practices. He admitted: *"Yeah I was making $50 million plus when I was in my early twenties. And yeah it was a great lifestyle, but the problem was I lost my way and let greed get the best of me, and ultimately it came crashing down."* He warns that this is not always the intent, but that the erosion of ethics is a slippery slope: "I didn't get there right away. That's the problem with money addiction and losing your ethics, it happens in these tiny imperceptible steps. And before you realise, you are doing things you never thought you would do, associating with people you never though you would associate with, and it all seems perfectly okay."



Wall Street, Manhattan
[Image: HdV]

As the ethicist Henderson states: *"Deciding what is good or bad and right or wrong in such a dynamic environment is necessarily 'situational'. Therefore, instead of relying on a set of fixed ethical principles, we must now develop an ethical process"* (cited in Kuratko, 2016, p. 42).

Table 8.1
Corruption Perceptions Index 2016

2016 Rank	Country	2016 Score	2015 Score	2014 Score	2013 Score	2012 Score	Region
1	Denmark	90	91	92	91	90	Europe and Central Asia
1	New Zealand	90	88	91	91	90	Asia Pacific
3	Finland	89	90	89	89	90	Europe and Central Asia
4	Sweden	88	89	90	89	90	Europe and Central Asia
5	Switzerland	86	86	86	85	86	Europe and Central Asia
6	Norway	85	87	86	86	85	Europe and Central Asia
7	Singapore	84	85	84	86	85	Asia Pacific
8	Netherland	83	87	83	83	84	Europe and Central Asia
9	Canada	82	83	81	81	84	Americas
10	Germany	81	81	79	78	79	Europe and Central Asia
10	Luxembourg	81	81	82	80	80	Europe and Central Asia
10	UK	81	81	78	76	74	Europe and Central Asia
13	Australia	79	79	80	81	85	Asia Pacific
14	Iceland	78	79	79	78	82	Europe and Central Asia
15	Belgium	77	77	76	75	75	Europe and Central Asia
15=	Hong Kong	77	75	74	69	69	Asia Pacific
17	Austria	75	76	74	73	73	Europe and Central Asia
18	United States	74	76	74	73	73	Americas
19	Ireland	73	75	74	72	69	Europe and Central Asia
20	Japan	72	75	76	74	74	Asia Pacific
21	Uruguay	71	74	73	73	72	Americas
22	Estonia	70	70	69	68	64	Europe and Central Asia
23	France	69	70	69	71	71	Europe and Central Asia
24	Bahamas	66	N/A	71	71	71	Americas
24	Chile	66	70	73	71	72	Americas
24	UAE	66	70	70	69	68	Middle East and Nth Africa
27	Bhutan	65	65	65	63	63	Asia Pacific
28	Israel	64	61	60	61	60	Middle East and Nth Africa
29	Poland	62	62	63	62	58	Europe and Central Asia
29	Portugal	62	63	63	62	63	Europe and Central Asia
31	Barbados	61	N/A	74	75	76	Americas
31	Qatar	61	71	69	68	68	Middle East and Nth Africa
131	Russia	29	29	27	28	28	Europe and Central Asia
131	Ukraine	29	27	26	25	26	Europe and Central Asia
136	Guatemala	28	28	27	28	30	Americas
136	Myanmar	28	22	21	21	15	Asia Pacific
136	Nigeria	28	26	27	25	27	Sub Saharan Africa
173	Syria	13	18	20	17	26	Middle East and Nth Africa
174	Korea (North)	12	8	8	8	8	Asia Pacific
175	South Sudan	11	15	15	14	N/A	Sub Saharan Africa
176	Somalia	10	8	8	8	8	Sub Saharan Africa

Notes: Listed in descending order from the least to the most corrupt
Source: Adapted from the Corruption Perceptions Index (2016)

The Entrepreneur: An Ethical Agenda

Jordon Belfort's story is a timely warning of what can occur over time if the entrepreneur lacks a clear ethical position. There is also the challenging and contentious question of when is enough 'enough'? Entrepreneur Bruce Plested, who founded New Zealand's largest freight company, Mainfreight, challenges the lauded practice of constantly striving for more wealth.

Bruce Plested's Political Stance a Welcome Change

OPINION: Mainfreight has had a record year. According to its 2017 annual report, New Zealand's largest freight company registered an unprecedented profit of $103 million in 2016-17, up 17 percent on the previous 12 months. Revenue was up as well, surpassing $2.3 billion.

In his report preamble, founder and chairman Bruce Plested lauded the company's achievements. Then, he went a little off topic: "With 2017 being an election year in New Zealand and in some European countries, it is worth asking these questions of our politicians. Too many of them fail the test and are lost in platitudes, jokes, jibes, foxy words and sheer procrastination." So began a brief but searing social commentary on New Zealand's shortcomings in housing, education and the environment. Plested mused on housing inaffordability, chronic underachievement by school pupils in poor areas and the abusive relationship between big businesses and Mother Nature. He finished with a meditation on greed, quoting an unnamed European billionaire who, asked in an interview about his money-making goals, professed a desire for "just a wee bit more".

"It is the "wee bit more" that has done so much to damage our environment," Plested wrote:" Just a few more cows per acre, just a wee bit more water for irrigation, just another water bore in case it doesn't rain, just a wee bit more sewerage [sic] mixed with a wee bit more storm water, just a few more years raping our already depleted fish stocks."

"The problems mentioned here are not fixed by the market. They are like law and order, the local and national politicians should be dealing with them and committing to solutions before the next elections."

None of what Plested wrote was especially profound. The subject matter is well traversed and any number of people and organisations across the country can be found saying similar things. But Plested is not an activist, lobbyist or spokesman for a special interest group. He is not a politician. He is the head of one of the largest companies in New Zealand and, as such, his comments warrant attention.

Helpfully, Mainfreight appears to do as its leader says. The company shares 11 per cent of its profits with its employees in the form of a bonus. It also takes energy efficiency seriously, cutting carbon emissions in its operations and committing to solar power. It sponsors the Life Education Trust and programmes that provide books for school children in New Zealand, Australia and the USA. Until his death in

2015, Plested's long-time business partner at Mainfreight, Neil Graham, was one of the country's foremost philanthropists. Those are admirable practices, but leveraging business help for universal social good would be even better. A search through the chairman's remarks in the most recent annual reports of some of New Zealand's other large companies found no Plested-like pronouncements. They would be a welcome addition, especially in an election year.

A single voice catches a few ears. A chorus would demand an audience.

Source: Stuff (July 28, 2017)

How can an entrepreneur maintain a high ethical agenda, when the business world constantly throws up challenges and temptations? As a simple starting point Dosick (1993, p. 191) suggests the following **ethics** model:

E	**E**verywhere
T	All the **T**ime
H	Be **H**onest
I	Act with **I**ntegrity
C	Have **C**ompassion
S	For what is at **S**take is your: *reputation, self-esteem, and inner peace*

This model comes from Dosick's (1993) 'business bible' in which he offers 'ten commandments' for creating an ethical workplace. A few of his recommendations for ethical behaviour, that I endeavour to adhere to, are:

Your Ear Shall Hear; Your Eyes Shall See

The art of doing business depends not only on what you do or say, but on how well you hear, how well you listen. *(I constantly have to remind myself of this!)* Take the time to listen to what is really said – the spoken and unspoken words (body language, tone, context of the conversation, and the environmental cues). It is important to open one's eyes to see what is 'really' going on – not just what words are spoken. ***Vision*** involves opening your eyes, as in your mind's eye, opening it to what could be, opening up to dreams and imagination.

> "Every waking moment you are bombarded with myriad sights and images. Before long, everything that you see can seem to blend into one hodgepodge of colour, shape, and texture. Even the keenest eye can be blurred. Even the clearest vision can become distorted. So – even when it seems difficult – keep your dreams and your visions before you. For if you really, really want it, it is no dream." (Dosick, 1993, p. 32)

Do Not Utter a False Report

I have found that always telling the truth and not entering into the world of gossip or innuendo is 'returned in spades' (that is, it is beneficial) and far outweighs any challenges it can cause. Once your word is your bond and you speak with honesty and integrity, your business relationships inside and outside of the organisation will blossom.

> "Will you use your words to rationalise and make excuses, to deceive and defraud? Or will you speak words of truth, regardless of outcome or consequences? These are choices that can make or break you in business. For at stake may be your job, your

livelihood, your company, your career, your reputation. ... And these are choices that can make or break you as a human being." (Dosick, 1993, pp. 39 - 40)

Do No Unrighteousness in Weights

Dosick (1993, p. 47) argues that your standing as a human being, your reputation, and success or failure in the business world is often based on how accurately you measure and how honestly you deal. It is easy to justify a little overcharging here or under supply there: the customer should be more diligent, no one will know, everyone does it, it is only a little thing, are regular justifications.

"Dishonesty is dishonesty, cheating is cheating, whether it involves a little or a lot. If you cheat, if you defraud, you diminish yourself as a human being, and you violate the trust that others have in you. ... How much is your integrity worth? What is the price tag on your soul?" (Dosick, 1993, pp. 50 & 60)

The infamous entrepreneur Jordan Belfort of the 'Wolf of Wall Street', has argued that you cannot be honest in varying degrees: In short, you are ethical or you are not.

A Gem of Fraud

Speaking about his dishonesty, Jordan Belfort said: "How I was making my money was 95% legal. It was the 5% that destroyed me and it was very apropos for what happened in the Global Financial Crisis. Many of these companies were quite legit and for many years they operated lily white. ... But there was a gem of fraud in there and ultimately even a gem of fraud, it expands and grows and destroys the organism. I think one of the things that needs to be learned is that you can't do things right in business 98% of the time and 2% of the time rape and pillage the village."

Love Your Neighbour as Yourself

The entrepreneur is a networker. Being a successful entrepreneur relies on how you treat each and every person you come across in life. When you begin with a smile, a good word, ask about the person's family (as previously stated by Ravensdown CEO, Greg Campbell), convey respect and regard for others, you develop good will and trust. As a result, 'anything' is possible.

Do Justly, Love Merc

An entrepreneur can often get caught up in *'the game'* of needing to beat the competition, to be the best, the most profitable, or fastest growing company. Compelled by the pressures of such objectives, an entrepreneur can become isolated, obsessed, and a harsh taskmaster. Yet, leadership is an important factor in successful entrepreneurship, as the entrepreneur cannot do it alone. Leadership means protecting your people, developing their skills and capabilities, and helping them to grow as people. Do the right thing by your people in a **just** manner.It is crucial to set the right tone and atmosphere in the organisation. As Dosick (1993) says, whenever staff represent the company, they need to understand the company's philosophy of doing business, understand its identity, purpose and values, and what it stands for. The entrepreneur can be the embodiment of the company's ethics and lead by example:

"For people will mirror and then adopt your commitments as they see you living them" (Dosick, 1993, p. 88).

It is also important for entrepreneurs to show benevolence. In a business sense, we are referring to understanding and caring for their people, responding to their needs, sharing in their joys and pains*: "You can best lead when you do not remain above the fray, when you don't stand isolated and insulated, but when you are willing to get your hands dirty, to do whatever it takes to help your people reach their goals"* (Dosick, 1993, p. 92).

Acquire Wisdom

People may be very clever in their specific field of endeavour but are not necessarily 'wise' in the broader sense of understanding themselves, their contribution, and their place in the world. Wisdom involves taking a balanced view without dogmatic positioning. It is about tolerance and deeper thinking. It involves looking at things from different angles, generating and considering alternatives to solve problems, or introducing new innovations.

> "It is the task of wisdom to understand values in perception; in the design of action; in making choices and in judgement. What are the values that are driving us? What are the values we shall enjoy to the end? What negative values have we avoided? What value changes have we inflicted on others?" (de Brono, 1996, p. 118).

Exercise 8.5: Treating People 'Right'

A passenger was standing in line at an airline ticket counter, listening to the person at the front of the line berate the ticket clerk. The man was yelling, screaming, pounding his fist, and making one demand after another, one threat after another. Finally, the furious customer left the counter, and our passenger reached the head of the line. He said to the ticket clerk, "I want to compliment you. That other passenger was horrible to you; he said terrible things to you; he was mean and nasty. But through it all you never lost your smile; you never became angry. You were calm and polite. I really admire how you handled yourself."

"Thank you, sir," the clerk said. "I appreciate your kind words. But don't worry. It's all right."

"How can it be all right?" the passenger asked. "That man was positively abusive to you. How can it be all right?"

And the ticket clerk said, "It's all right because, you see, that man is going to Cleveland. But his luggage is going to Singapore." Source: Dosick (1993).

Question: What is Dosick's message in this story?

The Venture: An Ethical Strategy

Code of Conduct: At a venture level, it is important for the entrepreneur to establish an ethical code of conduct. This is a set of guidelines that explains the organisation's ethical behaviours. These types of codes try to provide guidance on all ethical dilemmas that staff may face in areas such as the use of company assets, conflicts of interest, record keeping, and the treatment of stakeholders.

As highlighted in a previous section, corporate entrepreneurship often pushes staff to walk a fine line between clever resourcefulness and outright rule breaking or unethical behaviour (Kuratko, 2017). Therefore, an ethical strategy which includes a code of conduct is vital, as we see in the Ravensdown case study below.

A further reason is that entrepreneurs need to win back some of the public's lost confidence in entrepreneurial/corporate behaviour. They need to see that entrepreneurs are contributing to society's betterment.

Although Kuratko (2017 p. 46) also notes the importance of creating a strategy of **ethical responsibility**. He warns that this is not an easy task for an entrepreneur (domestic or international). While acknowledging that no single or ideal approach to organisational ethics exists, he suggests that such a strategy should encompass three major elements:

- ***Ethical Consciousness***: The entrepreneur is responsible for the development of ethical consciousness since their vision created the venture.
- ***Ethical Process and Structure***: The procedures, position statements (codes), and announced ethical goals should be designed in such a way to avoid ambiguity.
- ***Institutionalisation***: This refers to a deliberate step to incorporate the entrepreneur's ethical objectives with the venture's economic objectives.

Ravensdown (New Zealand): Ethical Strategy

Ravensdown CEO Greg Campbell
Image: Courtesy of Ravensdown

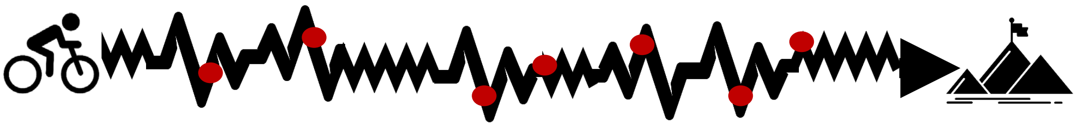
I continued my discussion with CEO Greg Campbell and procurement manager Chad Gillespie about doing business overseas. Hosting and food are a big part of international relationships. But Greg says that when his team are overseas he tries not to leave anyone by themselves due to the drinking culture in some countries and 'questionable practices' in others: *"There's some stuff in there that we would find morally and ethically different. So, we have to be quite open with our people that travel, that 'this is the expectations of the company' and you must protect yourself. Thus, we have never had an issue, but you are expected to have a drink, try their food. And they are not going to put you astray but I don't want to find that anyone is caught out. It's also all about our international business partners understanding how we do business in New Zealand."*

Greg has an induction process for his staff who need to travel abroad. Chad adds that since Greg's arrival at Ravensdown they have very good policies. These have all been rewritten in the last 2-3 years. He said that policies are very clear. In addition, Ravensdown has a very good internal auditor. There are conflict of interest policies, whistle blower lines, and a code of conduct. As Greg explained: *"That is why we don't travel as individuals as it just protects everybody. Not that you are telling staff to expect anything to go wrong. But it is just a good governance policy to have in play."*

Establishing Values From the Venture's Outset

The dark side typology and cases such as the Wolf of Wall Street highlight that maintaining one's ethical values is an ongoing process. An entrepreneur may have a linear perspective of what may occur on their entrepreneurial journey (like the image below).

But, as was described in the entrepreneurial journey model in Chapter Three, all journeys are different: the road is not straight, and may be littered with unexpected opportunities and challenges. Furthermore, the entrepreneur will face continual ethical dilemmas.



An **ethical dilemma** refers to a situation or problem that an entrepreneur may experience. Depending on the decision made, this dilemma will have multiple possible outcomes that will affect the many stakeholder (the entrepreneur, employees, customers, suppliers, and the community) in different ways. These are times when compromise with be needed and ethical fortitude will be tested! How do you stay on your ethical path? While that might be an ongoing challenge, it begins with a set of values that the entrepreneur and their staff buy into.

Why are Values Important?

Values are your deeply-held beliefs about the **right way (and what you consider the wrong way) of doing things**. They drive your ethical behaviour.

Your values can be one of the **most important assets** in enhancing a venture's long-term survival, social value and monetary value.

Trends and fads - even strategies - will come and go, **BUT** your **values can be enduring**!

Each individual operates life with their own set of values and, of course, a venture is often an extension of the founding entrepreneur's values.

These values form the basis for your own life and your business actions!

Remember, every business has its ups and downs, goes through good times and tough times, and faces ethical dilemmas. It is your core values that will guide you through the toughest decisions you are likely to make: those 50-50 calls that every entrepreneur faces periodically which, in no uncertain terms, set the pattern for ongoing business activities (ethical or unethical)!

Your Value System

Benjamin Franklin once said: "We stand at the crossroads, each minute, each hour, each day making choices. We choose the thoughts we allow ourselves to think, the passions we allow ourselves to feel, and the actions we allow ourselves to perform. Each choice is made in the context of whatever value system we've selected to govern our lives. In selecting that value system, we are in a very real way, making the most important choice we will ever make" (Rogers, 1996).

We conclude this discussion with a group exercise (Group Activity 8.1) on how to set a new venture's values. This represents a strong start point for the entrepreneur's journey.

Group Activity 8.1: SpaceX Mission to Mars – Determining Your Core Values

Background

Elon Musk's company SpaceX is currently testing early, uncrewed iterations of a vehicle called Starship. Musk hopes that these vehicles will be capable of the arduous trek to Mar. But he admits that it is a very dangerous journey to create a colony on Mars (CNN Business, 2021). Some people may never come back!

Imagine that your group is tasked with creating a mini-version of a company to colonise Mars – called SPACEX MARS INC.

As the MARS INC founders you have to send a 'Colony Team' on a first space ship to Mars, consisting of a maximum of six people who will represent your business's best attributes (core values). You must choose the team members from the students, lecturers, and administrators that you have engaged with over the past four years.

Your Task

As a group, identify a maximum of six people you think have the right values to send on the spaceship to Mars. You cannot vote for yourself or a member of your team. You must choose people for 'positive reasons' (that is, people you feel would uphold a value(s) you feel are important to the successful and ethical performance of MARS INC).
Reflect on those choices and list the values/attributes they possess that made you select them (for example, Jane is very organised and operates with integrity, Ralph strives for excellence, and Rena is a charismatic leader who displays empathy)

Continue until you have a list of 6- 8 values, which you feel would help MARS INC to be successful and ethical. Then, critically review each business value for why it is important for a colony team to Mars.

See if you can end up with 5-6 concrete values.

Wordsmithing and presentation

Once you come up with a list of 5-6 values, write them AS A STATEMENT on the last page of the activity sheet provided. (You do not need to name the people who were the inspiration for these values).
Write them in the context of a colonising team to Mars.
You may want to wordsmith the values in a way that is more of a commitment.

For example, some of Google's values are: *'Do the right thing; don't be evil - honesty and integrity in all we do', 'Google cares about and supports the communities where we work and live', and 'We aspire to improve and change the world - aim high; think BIG, take risks.'*

Note: This is purely an exercise, but in the 'real business context' once you have articulated core values in writing they would need to be tested thoroughly in daily decision-making. They can then become long-lasting cornerstones of the business' ongoing activities, aspirations and successes.

Source: Adapted from Kelly (2010)

Helpful Hints for Completing the Exercise

Create a worksheet: to be completed before designing your Core Value Statement

[**WHO** and **WHAT** are the values that you feel would be particularly valuable for a colony SpaceX Mars Inc?]

1. Who?__________________________

Why? ____

____

2. Who?__________________________

Why: ____

____

3. 4. etc………….

MISSION TO MARS: CORE VALUES STATEMENT

[Note: it is important to write each of your values as a STATEMENT, not a single word!]

1. ____

____

____

2. ____

____

____

3. 4. etc…………

Chapter Summary

A great deal of this text has heralded potential and opportunities for the entrepreneur. However, a dark side does exist! This chapter has provided an alternate view of entrepreneurship and describes the dark side from internal and external perspectives. Key 'take homes' are:

- **The internal dark side** consists of the negative effects of failure, risk, stress, and ego, all of which the entrepreneur must effectively manage.
- **The external dark side** refers to the negative effect an entrepreneur's behaviour can have on other individuals, the community, and society as a whole.
- The **dark side typology** (Figure 8.2) illustrates a four-quadrant model which considers the entrepreneur's *disposition* and *ethical* spheres.
- An entrepreneur's ethical framework should have an ethical agenda based on a strongly articulated value system.

Thank you for taking the time to engage with this book.

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